A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, April 17, 1956, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Balderston
Mr. Erickson
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Shepardson
Mr. Szymczak
Mr. Vardaman
Mr. Fulton, Alternate

Messrs. Bryan, Leedy, and Williams, Alternate Members, Federal Open Market Committee

Messrs. Leach, Irons, and Mangels, Presidents of the Federal Reserve Banks of Richmond, Dallas, and San Francisco, respectively

Mr. Riefler, Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Parsons, Roelse, Willis, and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Manager, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 27, 1956, were approved.

Before this meeting there had been distributed to the members of the Committee a report covering open market operations during the period March 27, 1956 through April 11, 1956, and at this meeting a supplementary report covering commitments executed April 12-16, inclusive, was distributed. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse called attention to a paragraph on the second page of the supplementary report in which it was noted that at present market rates of interest, it is advantageous to the Treasury to invest money available in the trust funds and investment accounts in outstanding Treasury bonds, and thus, so far as the market effect is concerned, to "retire" the securities purchased. Mr. Rouse noted that a Treasury surplus may be anticipated this year and suggested that decisions of the Treasury as to the particular securities that might be withdrawn from the market through retirement of outstanding debt and the methods through which such retirements would be effected would exert direct effects upon credit conditions. This suggested the desirability of having the Federal Open Market Committee and its staff study the possible implications for credit policy of alternative debt management procedures.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 27 through April 16, 1956, inclusive, were approved, ratified, and confirmed.

A staff memorandum on recent economic and financial developments was distributed to members of the Committee under date of April 13, 1956. At Chairman Martin's request, Mr. Young made a statement at this meeting on the economic situation substantially as follows:

Economic activity continues to move sidewise on the high plateau maintained since late last fall. While the over-all picture is mixed, signs are present that pressures growing out of advancing private investment are beginning to tilt activity upward. Recently, evidence of private investment pressures has been most conspicuous in credit and capital market developments, but evidence continues to be marked in such data as construction contract awards, unfilled equipment orders, output levels for industries producing primary materials, and industrial prices. Over the past few weeks, auto and housing markets have stabilized, while other consumer markets, after allowance for usual seasonal and unusual weather factors, have been on the firm-to-rising side. Demand for labor has remained active, with wage rates showing further rise. Business and investor psychology continues very optimistic.

Abroad in industrial countries, activity maintains the appearance of general strength. Data for Great Britain suggest progress, at least modest progress, towards restoration of balance in the British economy.

Key developments in specific areas merit brief summary:

(1) Industrial production for March is being estimated at 142, down a point from the level of preceding months. The decline reflects mainly reduced auto output. Other consumer durables output was off some but this was compensated by rising equipment production. Late data indicate that demand is being maintained in major industrial lines so that April production is expected to hold at least to the March level.

(2) Auto production is now running about a fourth of last fall's rate, and is below dealer sales and export rates. Dealers' stocks declined moderately in March and are expected to show a larger decline this month. The used car market both in sales and prices has been showing better than seasonal strength. Sales of other durable goods in March regained their high fall plateau, after a slipback in February. Consumer sales at nondurable stores were also up in March. Department store sales, however, showed little change from February.

(3) Construction activity over-all showed a slightly better than seasonal performance in March, reflecting higher expenditures for business construction with stability for housing construction. While housing starts were at 1.1 million unit rate in March, residential contract awards were at an all time high, excepting only May of 1951 when special awards for housing at atomic energy installations made for a swollen total. The mortgage market through March showed an easing trend.

(4) Employment and unemployment data have continued to reflect mainly seasonal changes. Average hours of work have declined further, but average hourly earnings, after three months of stability, have risen to a new high, offsetting the further decline in hours of work and raising weekly earnings again close to the peak reached late last year.

(5) The annual rate of inventory accumulation for the first quarter of 1956 is estimated at $4 billion compared with $5 billion in the fourth quarter of last year. These rates are adjusted, of course, for inventory valuation change. It is significant that finished goods were a sizable proportion of the inventory increment this past quarter. With inventory to sales ratios now closer to longer-turn averages, inventory trends will bear close watching in the period ahead. A special fact of interest is that the steel industry is currently estimating that from 8 to 9 per cent of shipments is moving into inventory.

(6) With high levels of activity resulting in demand pressure on basic industrial materials and products, average industrial prices have continued to creep upward. At mid-April, the average was 5 per cent above the average for the first half of last year. With some recovery in agricultural prices since early this year, the average of all wholesale prices is up 3 per cent over the first half of last year. Markets for metals and many other materials continue strong, but markets for textiles and textile fibres have been quite mixed, with synthetics showing marked weakness, woolens strength, and cottons in between. By mid-April, farm prices had risen 6 per cent from December, but were still 5 per cent under the average for the first half of 1955.

(7) With activity in industrial countries abroad at very advanced levels, pressures on resources in these countries remain strong. The picture generally in industrial countries is one of continuing business investment boom. While both external and internal developments for Great Britain appear encouraging, cost and demand pressures are still on the inflationary side. Developments in Canada have been paralleling those in the United States fairly closely. United States imports seem to maintain their up-trend, as do also United States nonagricultural exports.

A summary of a statement next made by Mr. Thomas with respect to the credit situation follows:

In the past three weeks, credit markets have been adjusting to the impact of corporate tax payments and the Treasury refunding operation which came together in March, to heavy loan demand in capital markets and at banks, and now to the rise in discount rates. Some contraction followed record expansion in bank credit during the first three weeks of March. Preliminary estimates for the week ending April 11 based on figures for nine districts indicate a decrease of nearly $1 billion in holdings of U. S. Governments during the past three weeks, following an increase of $400 million in the previous three weeks. All types of issues of Governments have been liquidated by reporting member banks during the most recent three-week period. The net decrease of over a half billion dollars over the six-week period is about the same as the decrease over the comparable six-week period last year. Business loans showed little change in the three weeks, following a sharp rise, and are still about $1.4 billion greater than at the end of February. This compares with an increase of only $300 million in the corresponding six weeks of last year. Loans on securities decreased in the past three weeks by nearly the amount of the preceding increase, reflecting liquidation of borrowings related to the Treasury financing and other capital market developments.

Demand deposits adjusted declined by half a billion during the most recent three-week period, slightly more than in the corresponding period last year, but over the six-week period the decrease was negligible whereas a substantial decline is usual for this period. For the year to date money supply changes have been close to those expected seasonally. Treasury deposits declined about $1.5 billion in the last three-week period, approximately the amount of the increase in the preceding three weeks. In summary, the recent credit contraction, although noteworthy, has not offset the preceding record expansion and reports indicate continued strong credit demands and pressures on the market.

Large tax receipts built the Treasury cash balance to nearly $6 billion at the end of March - an important factor in the credit squeeze. While there has been considerable decrease since the latter part of March, the Treasury balance has averaged much larger for the year to date than a year ago, and is expected to stay fairly high through June. As Mr. Rouse indicated, in addition to retiring $4.5 billion of tax certificates in June, the Treasury might use some of its cash surplus to retire special issues for Government trust and agency accounts and replace them with other securities bought in the market, which is the same as retiring long-term debt. The cash surplus for this fiscal year is now estimated close to $5 billion, and it may be $6 billion for this calendar year.

Large corporate capital spending has been reflected in the securities markets. Offerings of corporate securities have been heavy and, although prospects are for lighter offerings in the near future, the April total will be above that of last year. The four-month total is above either of the last two years. Volume of State and local issues for the year to date is below 1955 but the calendar for the future is still large. A tendency to postpone some of these issues reflects difficulties in floating them, and some have been sold at lower prices than initial offerings. Common stock prices have declined somewhat in the past week from the highs reached early in April but generally continue fairly firm. On the whole, stock market credit has been stable for some time.

There has been a very marked adjustment in the interest rate structure in the past three weeks with the sharpest rises that have taken place since 1953. Medium-term Governments are selling on a yield basis of around 3-1/4 per cent or more, which is above the level reached in 1953. Prices of long-term bonds have not declined as much as intermediates and their yields are still below the 1953 highs. Corporate and municipal bond yields are now the highest since the fall of 1953 but still are not up to the high of the spring of that year. Treasury bill rates, which were kept down somewhat in February and March by special seasonal demands, have risen sharply the past three weeks. They rose above 2-1/2 per cent even before the discount rate increase and are now close to 2-3/4 per cent. This week's auction average was 2.77, the highest since 1933. The short end of the money market is no longer sharply out of line with the rest of the yield pattern, as was the case in February.

Bank reserve needs have been dominated recently by changes in required reserves that reflect wide variations in Government deposits. Required reserves increased sharply in the first three weeks of March, decreased in the next three weeks, and are showing little change this week. The current level is about $300 million larger than projected early in March and currency demand was $100 million larger. These reserve needs were met earlier by a larger than expected increase in float, by System open market purchases, and by increased member bank borrowing at the Reserve Banks. Subsequently, float decreased and the System reduced its portfolio. Net borrowed reserves have been close to the $450 million level, with borrowings of member banks generally above $1 billion and so far this week about $1-1/3 billion. Announcement late on April 12 of the discount rate rise was preceded by heavy anticipatory borrowing and banks met their needs for this entire week. This accounts for the ease in the Federal funds market yesterday.

As will be seen from the table of projected reserve changes, the pattern would call for only moderate net changes in reserve needs during the next six weeks, but in June seasonal demands will increase pressures substantially. Wide week-to-week variations may be expected and the projections indicate that net borrowed reserves will vary from as low as $130 million to as high as $540 million. The average level appears to be lower than would be appropriate for a restrictive credit policy and might call for further sales from the System portfolio.

Needs for further System action will have to be judged by reactions of lenders and borrowers to current restrictive policies. Reflecting possible alternative developments, we may ask: (1) Will credit expansion be curtailed to the point needed to maintain balance without critical results and without further restrictive action? (2) Will banks want to increase further their borrowings from the Reserve Banks to meet further undue credit expansion? (3) Will pressures of credit demands remain so strong as to cause further rises in interest rates and weak security markets that will eventually bring about a money market crisis and a serious downturn in the economy? Which course of events will be following should be indicated by the pressures on capital markets and commodity markets, and should be reflected in interest rates and prices.

In response to an inquiry from Mr. Vardaman, Mr. Young said that reports indicated considerable "gray market" activity in steel at the warehousing level recently, and that during the first quarter of this year such gray market activity appeared to have been fairly widespread throughout the United States.

Mr. Sproul referred to the statement by Mr. Thomas regarding the capital markets and to Mr. Young's review of estimates of prospective private capital expenditures. He inquired whether there may have been some over-emphasis on proposed capital expenditures in terms of their future effects on the economy; that is, whether their effects may already have been largely felt.

Mr. Thomas stated that this was a possibility and that if it developed that the actual rate of expenditures was not as large as might be anticipated by the present pressure for borrowing in the capital markets, this would be a desirable development. On the other hand, if corporations spend at the rate at which they have been attempting to obtain funds in the capital markets the effect would be to create great pressure on the resources of the country.

Mr. Young stated that while the figures of prospective capital expenditures did not extend over a sufficiently long period to provide data for a thorough analysis of their behavior, the tendency had been for corporations in periods of expansion to under-estimate the amounts they actually would spend in future periods, particularly in the second half of the year.

During further discussion of this subject and comparisons with the 1937-38 period, Mr. Williams reported a comment by two utility directors of the Philadelphia Bank that further disturbances in the long-term bond market would lead to increased demand by the utility industry on banks for short-term funds. Expansion plans by utilities are made for periods of several years ahead and are not subject to much postponement.

Mr. Leedy stated that he had the impression that a considerable part of the anticipated capital investment programs reflected plans based on long-term growth factors, particularly growth in population extending to, say, 1965, and that in these cases the failure of anticipated growth to develop as rapidly as forecast would not be of too great importance over short periods of time.

In opening the discussion of credit policy, Chairman Martin said that since the System's action increasing the discount rate effective April 13, 1956, he had received a number of comments suggesting that the System might precipitate another situation such as that which exiated in the spring of 1953 when there was apprehension about a sudden concerted closing of the discount window. The Chairman suggested that we bear in mind that we don't want continuous borrowing, but also we don't want to make money "unavailable." The Chairman also suggested that in reviewing the Committee's directive, the discount rate, and the discount window, it take into account all factors that might bear on the situation.

Mr. Sproul then made a statement substantially as follows:

1. With the production index showing a slight decline for March, employment showing no more than seasonal improvement, the average work week declining, and inventories increasing, we have a potentially unstable situation, in which what now appears to be overoptimism on the part of the business community might perhaps quickly change to a more sober appraisal of the future. For the present, however, it is significant that consumer incomes are staying high, and retail sales are holding up, which is the fundamental basis for high production and employment.

2. In these circumstances, and in the light of the strong demand for credit and capital and the likelihood of upward pressures on prices from the cost side, I think we are right in maintaining pressure on bank reserve positions and probing into the structure of interest rates by increasing the cost of reserve funds.

3. I would emphasize that it should be a probing operation, however, not a major operation since we do not know for certain what is wrong with the patient nor how drastic the reaction might be if we vigorously tried to redress the existing balance of forces.

4. This suggests to me that we watch the reaction to our recent increase in discount rates, and try to maintain about the position of reserve availability which we had attained earlier this month, but that we should not press our policy too harshly nor too far while we are still operating more on feel than on facts.

Mr. Johns said that he was in substantial agreement with Mr. Sproul's statement. He noted that three weeks ago he had suggested that the construction outlook and employment in the St. Louis District might be lagging somewhat behind the national picture. It now appeared that this was not the case as to construction, and at this time conditions in the Eighth District do not appear to differ significantly from the national picture described by Mr. Young. Mr. Johns said that for the time being he would not wish to increase the pressure in the market but would try to observe the effects of the recent change in discount rates; he would hold the line until the future became a little clearer.

Mr. Bryan reported discussions at recent meetings of the executive committee and the board of directors of the Atlanta Bank with regard to the increase in the discount rate. He said that the directors were unanimous in believing the System was compelled to act in a restraining way. They felt that the increase in the rate would have a needed sobering effect. As to policy for the next few weeks, Mr. Bryan said that his position was indicated by the suggestions made by Messrs. Sproul and Johns, that is, that the Committee pursue a watchful waiting attitude while observing developments. He would like to have the discount rate effective; he would not allow the bill rate in any spasmodic movement to go much above the discount rate, but he would not allow it to back away from the 2-3/4 rate by any large amount.

Mr. Williams said that recent comments of directors of the Philadelphia Bank indicated considerable accumulation of steel inventories, as Mr. Young reported. This was in anticipation of price increases and sustained demand for consumer durable goods. He reported that an oil company executive had said that the growing discussion of increases in the prices of crude oil was not meeting a favorable response on the East Coast, in part because of the possible effect on imports. If domestic crude prices are increased, there will be a temptation to increase imports and this ultimately might result in demands for restrictive control over imports. Mr. Williams reiterated his earlier comment that utilities companies might be seeking alternative sources of funds for capital expansion, which might cause difficulty through adding to loan demands at banks. The response to the increase in the discount rate was that it was to be expected, Mr. Williams said, and there was some question as to how effective it would be in restraining credit expansion. He reported conversations with major sources of borrowing at the Reserve Bank which he felt indicated that the concern banks were showing regarding credit expansion was genuine. Mr. Williams also reported a statement by the President of the Pennsylvania Bankers Association recently suggesting that bankers should look to their responsibilities for seeing that the situation did not get out of hand, and appealing to them to exercise self-discipline. Mr. Williams said he assumed there was no need for any change of policy at this time in the light of developments of the last three weeks.

Mr. Fulton said that the Cleveland District continued to reflect a high rate of activity. The steel inventory situation might differ from that suggested by other comments, in that the only accumulations reported were in the industries allied with the automobile industry. Other customers were cutting up about all the steel they could get. Expenditures for capital improvements are going forward, Mr. Fulton said, and the increase in cost of money was not expected to deter carrying out these plans. The only deterrent which he noted currently was inability to get steel for construction. Projections made by manufacturers as to the need for the products they make were paramount in their minds at present. Summing up, Mr. Fulton felt that at present there was an abundant economy and this situation would continue as far as could be seen. He said that he thought no relaxation should creep into Federal Reserve policy at this time and that at least the existing degree of firmness should be continued.

Mr. Shepardson said that he felt the Committee was in a position where it needed to hold steady for a period.

Mr. Robertson stated that he saw nothing in the picture that would warrant a decline in pressure or an increase, and he thought it too early to determine what the reactions would be to last week's discount rate increase. Consequently, this was one of the times when the Committee's agent should have real latitude in carrying on operations depending on what the reaction to the increase in the discount rate turned out to be. If real stringencies were to develop, the management should be in a position to ease the situation. On the other hand, if the rate increase had no effect on the market, Mr. Robertson said that he would wish to hold steady until the next meeting of the Committee.

Mr. Mills said that his sentiments followed the thoughts thus far expressed, especially the desirability of waiting for a period to observe the effects of and reactions to the change in the discount rate. We knew from experience that there was always a delayed reaction to any shift in System policy, Mr. Mills said, and a waiting period might be particularly important at the present time in order to allow the market for U. S. Government securities to adjust.

Mr. Vardaman said that his feelings were similar to those expressed except that, having acted on the discount rate with considerable force, the personnel of the System should now adopt the "golden standard" of silence, and that the Board and Bank personnel both should forego at least for awhile any further discussion of restrictions in the field of money and credit. Otherwise, he said a fear psychosis might be developed, which could result in a buyers' strike. On a broad geographical basis, he found a real fear not as to the cost of money but as to its availability. There was a fear that the discount window was not going to be open. It seemed to him extremely important, Mr. Vardaman said, that this fear be eliminated as soon as possible. Mr. Vardaman also expressed the view that there was an inequitable distribution of loanable funds across the country which was causing complaints, particularly in agricultural areas. This would adjust itself if the System would now "sit tight" and observe the situation closely for the next few weeks. Mr. Vardaman also said that he had been unable to find evidence as to where the gray market in steel was putting inventories unless it be in the housing industry.

Mr. Leach made a statement substantially as follows:

> Two key factors in the current situation directly related to our recent changes in the discount rate are the prevalence of upward price pressures and the strength of loan demands.
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> At our Directors' meeting last week one of the Directors who is with an electric tool manufacturing concern commented that he had experienced about a 5 per cent increase across the board in the price of materials entering into his products and that he was anticipating another 5 per cent increase in coming weeks. As a result, he had notified his sales people that a 10 per cent increase in prices of his products was in prospect two months from now. This seems to be typical of what is happening to prices.

A week's visit to eighteen banks in the Carolinas and interviews with other bankers gave me the impression that the strong demand for loans is getting stronger, particularly at the larger banks. Many bankers are worrying about their liquidity positions. They are largely out of short-term securities, and bonds which are not pledged to secure deposits can be sold only at substantial losses. We have received inquiries in regard to borrowing on eligible paper and are bringing our forms and procedures up to date. One of the largest banks in our district with $400 million deposits is planning to send us this week a bundle of eligible paper to be used in case of need. This bank expects to borrow intermittently for three months in varying amounts ranging up to $25 million.

A number of bankers in whom I have confidence tell me they are screening loans closely. Several have eliminated or reduced lines to finance companies. I heard a South Carolina banker turn down an application for a $75,000 loan to a good business customer to be secured by listed stocks. The banker had learned that the purpose of the loan was to repay a loan to his customer's brother which had been called by his New York bank. The South Carolina banker told his customer he would lend him any reasonable amount if needed for his own business but he would not let a security loan be transferred from New York to his bank. His lending capacity would be saved, he said, for the expanding business needs in South Carolina.

Loan expansion is occurring in practically all areas. Much of it comes from business enterprises which are expanding plant or buying new machines. The larger corporations can issue securities or place loans directly with insurance companies, but insurance companies want loans that will run for at least ten years and have little or no interest in loans that can be paid out in monthly installments over one to three years. Consequently, such prospective borrowers turn to their banks.

In my opinion we should maintain but not increase pressure in the immediate future.

Mr. Leedy said that the matter of borrowing on eligible paper to which Mr. Leach had referred had already been experienced in the Kansas City District in one case with a country member bank. He was more disturbed by an inquiry the other day from a non-member bank about borrowing on direct obligations of the U. S. Government. This inquiry caused him to feel that perhaps the Bank should take a second look to see whether the rate was at a level that would discourage such borrowings by a non-member bank. As to the Committee's policy, Mr. Leedy said that he did not differ from the suggestions made thus far. The management of the account had done a remarkable job since the preceding meeting in applying pressure, he said, and for the period ahead, he would surmise that even more skill might be required in managing the System account. Mr. Leedy said that there was a question how far the Committee could go in maintaining the pressure that seemed to be called for in the light of its present policy without creating disturbances in the short end of the market beyond what the Committee desired. He also felt that the fact that the stock market had taken the increase in the discount rate in stride was disturbing; this confirmed the feeling that the existing optimism is justified. If this feeling prevails generally in the business community, Mr. Leedy said, there is not likely to be any cessation in the demand for credit and a problem is thus presented for the Committee. However, in the period intervening between now and the next meeting, he would attempt to apply pressure about as has been done during the past few weeks.

Mr. Powell summarized conditions in the Ninth District as better than a year ago right across the board. The fact that current farm income was holding above a year ago reflected the large crops harvested last fall. All indications were that business was doing very well and much better in some cases than previously had been expected. In one respect the Ninth District differed from the rest of the country in its banking statistics and that was the higher borrowings from the Federal Reserve Banks as a percentage of required reserves. Mr. Powell said that the substantial increase in the discount rate made at the Minneapolis Bank from 2-1/2 to 3 per cent was necessary to avoid getting the borrowing situation farther out of line without closing the discount window. Restraint still seemed to be in order so far as the Ninth District was concerned, he said, and as long as it also seemed desirable for the national picture, that seemed to be the policy for the Committee to pursue during the next three weeks. However, Mr. Powell would be cautious about increasing pressure during this period.

Mr. Mangels said that he subscribed to the views expressed as to the policy that should be followed for the next three weeks. The over-all economy of the Twelfth District is much the same as that described for the country as a whole, Mr. Mangels said. Loans by banks have been increasing during the past few weeks and are substantially above those of a year ago. Mr. Mangels commented on an analysis of loans of 29 of the large banks of the district, stating that the average of their loans to deposits was 51.9 per cent and that this ranged from a high of 60.3 per cent for one very large bank to a low of

18.8 per cent for a bank in Salt Lake City. Real estate loans averaged 48 per cent of time deposits of the banks, ranging from a high of 64 per cent at one bank to a low of 14 per cent at another bank which is not inclined to make real estate loans. Mr. Mangels stated that visits which he and Governor Balderston made to banks in cities of the Pacific Northwest during the past two weeks gave the impression that the banks expect loan demand to increase in the future and, even though they will screen these applications, the volume of loans will rise. He reported that sales of new automobiles during March increased somewhat less than seasonally. Sales of used cars have been quite strong, and stocks of used cars have declined to a point where dealers are expressing some concern. New car inventories have decreased somewhat recently, partly because of the pick-up in sales, partly because manufacturers have reduced output, and partly because dealers have been more willing to refuse to take as many new cars from manufacturers as previously had been the case. Construction activity is holding up well in the Twelfth District, partly reflecting added construction being undertaken for automobile assembly, aircraft, and other plants. Mr. Mangels also commented on an application for an industrial loan for $2-1/2 million received by the San Francisco Bank recently, which, while containing provisions which would normally make it acceptable, was declined by the directors of the Bank in the light of current System credit policy and of the fact that the applicant had a commitment from an insurance company for a somewhat smaller loan.

Mr. Mangels also referred to the action of the Board in approving an increase in the discount rate at the San Francisco Bank from 2-1/2 to 3 per cent, effective April 13, and to the announcement of the Board's approval which was received in San Francisco shortly after noon on April 12. A number of bankers indicated their approval of the increase in the rate to the 3 per cent level. One result of this announcement prior to the close of banking hours was that seven banks borrowed a total of $130 million at the San Francisco Bank that day. Four of those borrowings were from four to six days. It is the policy of the Bank to limit the period of borrowings under such conditions to the end of the current reserve computation period, even though some banks might seek credit for a longer period of time. Mr. Mangels felt that in view of the recent increase in the discount rate it would be desirable for the System to observe developments for a few weeks before taking further action.

Mr. Irons said there had been no significant changes in the economic situation in the Dallas District since he reported three weeks ago and that activity continued at a very high level in most areas, although lack of rainfall is an unfavorable factor for agriculture. Loan demand continues very strong in cities of the Dallas District, Mr. Irons said, and those banks are feeling the pressure of tightness. Most country banks are carrying excess reserves and are not heavily loaned up. Only three country banks have borrowed from the

Dallas Bank for a long time and those borrowings have been essentially seasonal in character. A number of large city banks have sent eligible paper to the Reserve Bank for processing so as to have it "on tap" in case of need. These banks can not see a decline in loan demand in prospect. The response to the increase in the discount rates last week was favorable, Mr. Irons said, although there seemed to be some question whether it would stop the pressure on banks for loan expansion. Mr. Irons stated that he felt this was a time when the System should observe the situation carefully. The management of the System open market account should be given great leeway in order to meet whatever situation may arise.

Mr. Erickson said that business in New England is about as outlined in the economic review for the country as a whole. Construction awards are still running well ahead of last year, particularly in the case of residential contracts. The textile industry has not shared in the high level of activity to the extent that the boot and shoe, paper, and a number of other industries have. Mr. Erickson said that there was no anticipatory borrowing at the Boston Bank in connection with the announcement of the discount rate increase last week. He expressed concurrence with the view that for the present the Committee should observe the situation carefully without changing its existing policy or operations.

Mr. Szymczak stated that he felt the Committee should continue about the existing situation and that it should be careful not to add to pressures on the reserve situation during the next three weeks.

Mr. Balderston said he had no recommendation to make but that he wished to raise a question stemming from the high loan-deposit ratio reported by many banks and from the existence of a "hard core" of continuous borrowers at the discount window. He felt that net borrowed reserve figures of $400 to $500 million might prove to be deceptive if the twelve Reserve Banks should simultaneously bring pressure upon continuous borrowers to correct that situation. Mr. Balderston suggested that the volume of so-called continuous borrowing might amount to as much as $600 million, and if action were taken to induce large banks to clear up their individual situations this might precipitate the indiscriminate sale of intermediate Government securities and thus bring about an unwanted over-tightening in the situation even though net borrowed reserve figures remained unchanged. The critical question was, he said, in how many of the twelve districts are the so-called continuous borrowers likely to be taking action to correct their situations during the next three weeks.

Mr. Williams suggested that the problem might not be one of reducing the amount of continuous borrowing but rather of avoiding an increase in it in the light of prospective demands ahead, and Chairman Martin commented that this was a good point in terms of pressures that might exist.

Chairman Martin then stated that on the basis of the discussion this morning it seemed clear that there was agreement that no change should be made in the Committee's policy at this time, and that this would mean that no change was called for in the wording of the directive to be issued to the Federal Reserve Bank of New York. He inquired of Mr. Rouse as to whether this was his understanding, and Mr. Rouse indicated that it was, and that no change in the limitations in the directive was called for.

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System open market account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary developments in the interest of sustainable economic growth, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Chairman Martin suggested that the next meeting of the Committee be set for Wednesday, May 9, 1956, and there was agreement with this suggestion.

Chairman Martin next brought up the question of the authority for repurchase agreements. He noted a suggestion that, instead of considering the authority for the Federal Reserve Bank of New York to enter into repurchase agreements with nonbank dealers in Government securities at each meeting of the Committee it might be sufficient to raise this question at less frequent intervals, and he inquired whether any of the members of the Committee would object to that procedure.

Mr. Vardaman stated that he could see no reason for bringing the question up at each meeting of the Committee, and Chairman Martin suggested that it would seem sufficient to bring it up at the annual meeting of the Committee to be held next March unless some occasion arose for discussing it again prior to that time.

There being no indication of disagreement with Chairman Martin's suggestion, the authority for repurchase agreements was renewed in the following form with the understanding that it would continue in effect until the annual organization meeting of the Committee to be held in March 1957, unless a condition developed prior to that time which would make it desirable for the Committee to consider it earlier:

The Federal Reserve Bank of New York is hereby authorized to enter into repurchase agreements with nonbank dealers in United States Government securities subject to the following conditions:

1. Such agreements
   (a) In no event shall be at a rate below whichever is the lower of (1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills;
   (b) Shall be for periods of not to exceed 15 calendar days;
   (c) Shall cover only Government securities maturing within 15 months; and
   (d) Shall be used as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.
2. Reports of such transactions shall be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank of New York shall be sold in the market or transferred to the System open market account.

Chairman Martin noted that the Committee was scheduled to meet tomorrow, Wednesday, April 18, 1956, for the purpose of discussing questions raised regarding certain continuing operating policies of the Committee, referred to in a memorandum distributed by Mr. Sproul under date of March 21, 1956. He suggested that the members of the

Committee and the Reserve Bank Presidents not currently serving as members of the Committee meet in executive session at 9:30 a.m. on April 18, 1956, for the purpose of discussing this subject, and there was agreement with this suggestion.

Thereupon the meeting adjourned.

Secretary's note: In connection with the discussion of certain continuing operating policies to be held on April 18, 1956, Chairman Martin distributed under date of April 17, 1956, a memorandum intended to make clear his personal position on the basic points raised in Mr. Sproul's memorandum of March 21, 1956, concerning this subject. Subsequent to the executive session on April 18, the Chairman reported to the Secretary that the subject had been discussed and that the discussion had not resulted in a decision to change the existing statements of policy.

Winfield W. Riefler
Secretary.