

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 Monday, December 10, 1956, at 10:00 a.m.

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

Messrs. Allen, Leedy, Treiber, and Williams,
Alternate Members of the 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. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Hostetler, 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

Mr. Cameron F. Cobbold, Governor of the Bank of England, was present during the presentation of the chart review of economic and

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financial conditions. Mr. Fauver, Assistant Secretary, Board of Governors, accompanied Governor Cobbold.

Before this meeting there had been distributed to the members of the Committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period November 27, 1956 through December 4, 1956 and a supplementary report covering commitments executed December 5 through December 7, 1956. Copies of both reports have been placed in the files of the Committee.

Mr. Rouse said that, as stated in the supplementary report, the Treasury bill market continued heavy and sluggish over the three-day period December 5 through 7 despite continued System purchases. The announcement by the Treasury on Friday, December 7, of an additional \$1 billion cash offering of special March 22 tax bills, to be auctioned December 12 and paid for December 17, came as a shock to the market, he said, since it had appeared that the Treasury's financing needs for the rest of this year had been taken care of. The immediate effect in the market was precautionary, with a marking up of rates on Treasury bills. Expectations in the market were that today's auction of regular Treasury bills might sell at a 3.25 per cent yield or higher. Mr. Rouse also stated that during the past two weeks the market for municipal securities and particularly for corporate bonds seemed to have steadied. In the light of conditions that seemed to be developing on Friday afternoon, December 7, and in view of the bill auction today, the Account Management had decided to make purchases this

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morning perhaps to the amount of \$60 or \$70 million.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period November 27 through December 7, 1956, were approved, ratified, and confirmed.

Chairman Martin said that he had placed on the agenda for discussion at this meeting the suggestion that each Reserve Bank President be authorized to bring an economist from his staff to meetings of the Federal Open Market Committee. He noted that the Presidents who were members of the Committee were now accompanied by their economists, and it was the Chairman's thought that even though the adoption of this suggestion would increase the number of persons attending open market meetings, it was important that each of the Presidents be kept as fully informed of developments as possible and that he be given the benefit of having an economist with him if he so desired.

All who commented on this suggestion indicated that they favored the procedure. In the discussion, the point was made that each Reserve Bank President would be free to use his judgment as to whether he wished to be accompanied by an economist from his staff at any specific meeting of the Committee, and the Chairman also made it clear that he felt it would be a mistake to have an economist attend a meeting unless the President of his Bank also was present. The discussion concluded with the understanding that in the future each Reserve Bank President who was not at the time a member of the

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Federal Open Market Committee would be free to bring an economist from his staff (not necessarily the same one each time) to meetings of the Committee if he felt it desirable to do so.

Members of the International Finance and Research and Statistics Divisions of the Board entered the room at this point to assist in the presentation of an economic and credit review, illustrated by chart slides. A copy of the script and charts used in the review was sent to each of the members of the Committee following the meeting.

In opening the review, Mr. Young pointed out that before the dramatic developments of the past six weeks in the Middle East and in Western Europe, the economic situation in the United States was being appraised very largely in terms of domestic developments. Activity abroad was generally thought of as continuing to increase or being maintained at existing high levels. The recent international developments had had important economic effects abroad, he noted, including a substantial drain on British monetary reserves, curtailment of the flow of oil to Western Europe, and sharp increases in shipping rates. Domestically, industrial production and industrial prices had advanced further to new high levels in recent months. Increases in both production and prices had been widespread. Unemployment was low, gross national product had continued to rise, and greater expansion in capital equipment expenditures had taken place this year than had

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been anticipated a year ago. In contrast, production of automobiles had not been so high as in 1955 and starts of new housing units had declined during 1956. Monetary and fiscal policies had operated to restrain excessive demands in money markets and in the economy generally.

Mr. Thomas concluded the analysis of the economic situation with a statement as follows:

The review of the business and financial scene presented here this morning indicates need for continued restraint on credit expansion in the near future, although no additional restraining measures would seem necessary. While not all sectors of the economy have been at their peak rates this year, over-all demands have been so great that many industries, particularly some supplying basic materials, have been operating close to capacity. In the period ahead, changes in demand will differ from those evident this year, with autos and housing probably not repeating their marked declines and capital outlays probably not repeating their sharp advance, though continuing to increase. The impact of international developments is difficult to gauge, but, over all, the situation in this country may well continue to be one of high utilization of growing resources and continuing upward pressures on prices. Credit demands, particularly for long-term funds, may continue to exceed the flow of savings. It is in the light of these circumstances that monetary and fiscal policies and business plans need to be considered.

At its conclusion, members of the staff who had entered the room to assist in the economic review withdrew, as did Governor Cobbold and Mr. Fauver.

Chairman Martin next called upon Mr. Hayes for a statement of his views on the economic and credit situation and of his suggestions for open market operations. Mr. Hayes made a statement as follows:

1. Basic economic conditions remain about as they were two weeks ago. Despite continuing strength in current statistics

for production, employment, and income, we still find a variety of indications that the upward pressure of the boom may be diminishing and that this could easily lead to a leveling off in production and income figures within the next few months.

2. Among factors which point toward continued upward pressures may be mentioned public expenditures, which are almost sure to increase substantially next year, although in the area of Federal expenditures the size and timing of the increase are difficult to appraise. The upward trend in prices of industrial products has continued and, in this connection, the recent rise in hard coal wages and prices, the prospect of a 3 cent per hour cost of living increase in steel wages in January, and an increase in transportation costs are also worth noting.

3. On the other hand we are impressed by the relative sluggishness of consumer demand in the face of the current high level of personal income. The implication that savings have been increasing is, of course, all to the good for the moment in helping to correct the present imbalance between demands for capital and available savings. However, for the longer run it raises a question whether larger productive capacities, together with consumer resistance to higher prices, may cause increasing difficulties in consumer goods industries, which in turn could act as a deterrent to a continued high level of capital expenditures.

4. Furthermore, there are cross currents in recent price developments which suggest that the Suez crisis has made for a spirit of caution on the outlook for world commodity trade, and this has tended to offset any influence the crisis may have had toward a speculative inventory buildup in certain types of commodities. Raw material prices as a whole have been rather stable.

5. Most surveys of private capital expenditures in the coming year point to a flattening out of the current high level rather than any new sharp gains.

6. The recent growth in business loans of banks has been about in line with seasonal expectations. It also seems likely that repayments of such loans will proceed in accordance with the seasonal pattern in January and February, although there is some question as to the timing of whatever impact on loans may be felt in the event that automobile sales show sizable gains over 1956 figures. It now looks as if borrowings for March tax payments may be at least as large as in 1956, in view of reduced corporate liquidity, so that for the first quarter as a whole loans may fail to show the normal seasonal contraction, as was true also in 1956.

7. Our hopes that the Treasury would be out of the market for some time, apart from the regular weekly bill offerings, have of course proved to be ill-founded, in the light of the emergency cash needs resulting from the sterling crisis. We must again be prepared to assist in maintaining a receptive atmosphere for the new financing.

8. We find ourselves in a puzzling and difficult situation with respect to application of sound monetary policy. On the one hand, there is continuing need for general credit restraint, since the balance of economic forces is still upward. But at the same time, we are impressed by the divergent tendencies in the domestic business outlook, by the sensitivity of the capital markets--even though they have shown some tendency to stabilize at least temporarily--and also by the sensitivity of the Treasury bill market. Moreover, this is of course a time when seasonal pressures are naturally great, and these pressures themselves are generating considerable restraint. Also there is a good deal of talk of a possible discount rate change, this talk being encouraged by the several recent increases in acceptance rates, by gossip of a possible prime loan rate rise (this time by perhaps as much as 1/2%), and by the persistent tendency of yields on the longer-Treasury bills to stay well above the discount rate. This tendency has been further emphasized by the reactions on Friday to the latest Treasury financing announcement. Despite a considerable easing of the banks' reserve position, both countrywide and in New York, as measured by the statistics alone, a general atmosphere of tightness still prevails, doubtless due in part to the fact that the liquidity of banks and corporations has reached a very low level, and also because of the seasonal need for cash for dividend disbursements and tax payments and the continuing demand for loans coming on top of already large commitments.

9. We feel that it would be unwise under these conditions to add to the strains already evident in the money and capital markets, and we would urge the use of open market operations freely if needed to prevent any intensification of these strains, even if sizable net free reserves should be a result. The effect of float and other factors should reinforce our efforts and make it possible to obtain the desired results with fewer bill purchases than would otherwise be required. We would not recommend any change in discount rates at this time, in spite of the upward tendency of short-term market rates of interest. We believe that the directive may properly be left unchanged in view of the fact that our next meeting will presumably occur shortly after the turn of the year, at which time it will be appropriate

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to reconsider the clause relating to seasonal factors and to consider whether any other change of emphasis should be made in the light of intervening developments.

Mr. Erickson said that in the Boston District the situation on the whole was one of strength although there were some signs of weakness in the economic picture. The improvement in the textile industry that had been shown in August had not been sustained. Mr. Erickson recalled his earlier reports of increases in the value of construction contract awards, stating that during the first ten months of this year they were 14 per cent higher than in the comparable period of 1955. However, during the first 22 days of November a decline was reported. Withdrawals from savings accounts exceeded deposits during October for the first time since last April.

Mr. Erickson described an interesting development in banking in the First District, stating that last week it had become known that the First National Bank of Boston and Granite Trust Company of Quincy, Massachusetts, were planning to consolidate. The first step would be the conversion of Granite Trust Company, now a nonmember insured bank, into a national bank. Mr. Erickson said that the State laws of Massachusetts provided that a trust company may operate branches only within the county in which its head office is located, while savings banks may operate branches within a radius of 15 miles of their head office. The First National Bank of Boston is located in Suffolk County while Granite Trust Company is located in Norfolk County. Mr. Erickson went on to say that a bill had been drafted which would propose

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that the State legislature permit trust companies to operate branches in the same areas as were permitted to savings banks.

With respect to credit policy, Mr. Erickson said that he felt there should be no increase in the discount rate at this time nor should there be a change in the Committee's directive. Open market operations should be handled during the next few weeks on the same basis as during the past two weeks, making reserves available to meet requirements as they develop even if this results in positive free reserves.

Mr. Irons stated that conditions in the Dallas District continued at a strong high level and appeared to be on something of a plateau. Increases in various measures recently had been comparatively small, as might be expected when economic activities were close to full utilization of capacities. Mr. Irons felt that small increases at this stage might, however, result in as much pressure as would larger increases when the economy was using relatively less of its available facilities. Nonresidential construction contract awards continue to rise, he said, but the number of residential starts recently had been down. Consumer spending had not shown an appreciable increase over a year ago and the expected seasonal increase in spending had not yet developed. Bank loans were increasing only slightly and the pressures of demand recently have not been as great as they were a few months ago. Nationally, Mr. Irons said that he concurred in the general view indicated in the report of the staff at this meeting: there was marked

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strength in the picture and it seemed to call for a continuation of the general policy the Committee had been following. At the same time, year-end factors would be with us in the market. These should be taken care of, but Mr. Irons hoped that the Committee would retain as much restraint as was feasible while meeting the year-end needs. He felt that no increase should be made in discount rates at this time.

Mr. Mangels said that Twelfth District developments recently had been much as he had reported at the past several meetings. New peaks were being reached in various measures of activity. There had been some rather large gains in erection of new factories and office buildings, and construction of educational buildings had increased. Reports from bankers indicated that the dollar volume of residential construction during the coming year would decline somewhat below this year's level. Christmas trade volume was down somewhat from a year ago, but stores were not yet concerned about the total for the month as a whole. New model automobiles seemed to have been received satisfactorily, but there had not yet been a strong upswing in sales, and volume of cars sold in the retail market had not yet caused retail financing to rise. Borrowings at the Reserve Bank continued relatively small with only a few banks discounting. Mr. Mangels said that he would concur in the policy course suggested by Mr. Hayes, that is, renew the Committee's directive without change, meet year-end needs as they develop, and make no change in discount rates at present.

Mr. Powell noted that some phases of economic activity in the Ninth District were seasonally inactive at present because of the winter

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weather. Retail trade was running at a somewhat higher level than appeared to be the case in the rest of the country. New model automobiles were not yet selling well; this did not seem to reflect lack of acceptance of the new cars but rather seemed to be due to inventory problems. Federal Reserve credit had continued to contract in the Ninth District and larger city banks were extending credit on a Federal funds basis to other parts of the country. Mr. Powell felt that the Committee should continue a policy of restraint, bearing in mind the uneasy international situation. The Account Management had been wise in making credit as readily available as it had recently, he said, but he hoped there would not be much more need for buying of bills by the System account since float and other factors might provide most of the reserves necessary to meet year-end demand. Mr. Powell said that he would not favor an increase in discount rates at present and that he felt the policy the Committee had been following should be continued until the picture became clearer after the turn of the year.

Mr. Allen said that there had been no developments in the Seventh District in the 13 days since the preceding meeting that had affected the economic outlook materially. Representatives of the automobile industry indicated that it would be the middle or the end of January before they could determine the acceptance of their new models. Most of the corn belt had excellent crops this year and with high prices for hogs and cattle, the leading sources of farm income in that area, the financial position of farmers had improved and currently was

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probably stronger than a year ago. This had not yet had much effect on spending attitudes, however. The number of feeder cattle purchased this fall exceeded the large number purchased a year ago and this was reflected in bank loans to farmers in the cattle feeder areas. The net income and financial position of dairy farmers was about the same as a year ago. Mr. Allen reported a good outlook for the major Midwest live stock products, stating that further gains in farm income were expected in 1957. The large surplus of feed grains on hand can be expected to result in lower feed grain prices and larger supplies of live stock products at some future time unless production is reduced substantially by the Soil Bank program. The recent improvements in farm income had been due largely to increased Government assistance and to smaller supplies of hogs and choice cattle. Mr. Allen said that he concurred with those who had spoken thus far this morning as to national monetary policy during the next few weeks, and he noted that there seemed to be almost unanimous agreement thus far in comments on this point.

Mr. Leedy said that the only Tenth District development on which he would comment was the Christmas trade situation: merchants seemed well satisfied and department store sales, as reflected in the last weekly report, were slightly higher than a year ago, notwithstanding the widespread drought conditions in the District. He associated himself completely with the views expressed by Mr. Hayes. The offering by the Treasury of additional special bills last week, arising from the

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British crisis, had taken him completely by surprise. Mr. Leedy felt that the program the Committee had been following during the past few weeks should be continued over the year end.

Mr. Leach said that since the meeting two weeks ago he had seen no changes in the economic picture, either in the Fifth District or in the nation, warranting an increase in restraint. Rather, the condition of the capital market seemed to be the Committee's major concern in spite of the slight improvement that had occurred. In this period of strong seasonal pressures, aggravated by the new Treasury financing, Mr. Leach felt the market appeared likely to continue in an unsettled condition. In his judgment, there would be considerable danger of adverse effects from any increased restrictiveness. It was clear to him that there should be no increase in the discount rate now. The amount of free reserves was of little significance at this time, Mr. Leach said, and it was his view that if the market seemed to feel any tighter at all, reserves should be added. There should also be a liberal attitude toward the use of repurchase agreements. Mr. Leach said he could see no reason to change the Committee's directive at this meeting.

Mr. Mills said that he, too, would subscribe to the approach to open market operations that Mr. Hayes had outlined and the reasons he gave for that approach, with the qualification that the market for U. S. Government securities continues to demand the Committee's very close attention at least through the remainder of this year. As he looked at it, his position has been reinforced by events since the preceding

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meeting. Under these circumstances, it was Mr. Mills' view that the Committee as far as possible should anticipate relief to the U. S. Government securities market by purchases of Treasury bills rather than delay action until the need for relief had been unquestionably indicated by market conditions. In further explanation of his views, Mr. Mills made a statement as follows:

Now that the United States has indicated its willingness to aid Great Britain in its defense of the pound, the eyes of the economic world will focus on this country and the steps that it must take to fulfill its commitment for British aid. Inasmuch as the mechanics of United States support to the pound are known to involve U. S. Treasury actions, including the Treasury's offering of \$1 billion of Treasury bills to be auctioned December 12 and paid for on December 17, it would be unfortunate if the System's monetary policy should be allowed to conflict with any question of stability in the market for U. S. Government securities. An unsettled market for U. S. Government securities could cause foreigners to question the ability of the United States to help defend the British pound sterling this time. It is, therefore, of critical importance that System open market policy be conducted through the remainder of 1956 with the primary purpose of maintaining stability in the market for U. S. Government securities.

Accomplishment of that purpose is entirely practicable even though the process of doing so is likely to involve continued substantial purchases of Treasury bills by the System Open Market Account. Under other circumstances, purchases of Treasury bills in volume, in supplying new reserves, would expand the availability of bank credit which, if that were to happen at the present time to any degree, would be contrary to the System's determination to maintain reasonable restraint over the growth of bank credit. However, normal and fortuitous factors present in the money market can be expected to work on the side of the System's policy in preventing any undesired expansion of bank credit. The factor of seasonal pressures on the money market is a normal influence on the side of the System's policy objective and one which is heightened this year by

unusually large demands for cash on the part of corporations arranging their dividend distributions. The year-end window dressing activities of commercial banks and corporations are an additional normal factor operating against an undue expansion of bank credit incident upon the provision of new reserves through System action.

Of the fortuitous factors that are present to prevent new reserves from effecting an undue increase in bank credit is, first, the disinclination of the commercial banks further to increase their loans in the face of their already abnormally high loan-to-deposit ratios; secondly, the influence of the issuance of the Treasury's special tax anticipation bills of January 16 and February 15 maturities and, now, the offering of its further issue of a special Treasury bill carrying a March 22 maturity, all combine to permit and require the System Open Market Account to purchase Treasury bills in volume, but free of stimulating an unwise expansion of bank credit. This is because these issues of Treasury bills were or will be originally subscribed largely by commercial banks against their Treasury Tax and Loan Accounts, the lives of which will have expired or will expire prior to December 31, 1956, which will cause a substantial volume of these instruments to come back on the market at a time that corporations, who might normally acquire them, will be prevented from doing so by their own reduced liquidity and other fiscal necessities. As that is the case, it will be incumbent upon the System Open Market Account to acquire such surplus of the special Treasury bills as comes into the market and cannot be absorbed at reasonable yields, all so that the System's operations will serve to preserve stability in the market for U. S. Government securities. Even if it should develop that greater amounts of reserves than desirable are injected into the market because of such a program, correction of that situation should not prove difficult in the normal course of events transpiring after the end of the year. In fact, the projected withdrawal of reserves intended for early January may need to be tempered so as to assist the market over January 16 when the refunding of the special issue of Treasury bills maturing on that date must be handled.

A final fortuitous circumstance that will indirectly act as an influence preventing the expansion of bank credit is the very rise in prices which it is a purpose of System monetary and credit policy to restrain. Considering the reduced liquidity of both commercial banks and corporations, it is obvious that rising prices will stand to be reflected in higher investments by corporations in inventories and accounts receivable and in some consequent demand for new bank credit in order

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to finance such investments. Due to the liquidity factor mentioned, it is unlikely that either corporations or commercial banks will seek to expand their positions of already strained liquidity, and as that is the case, rising prices may prove to be a restraining rather than an expansive credit influence and should certainly tend to minimize the use of credit for speculative inventory purposes or the like.

Mr. Robertson said that he saw no reason to vary during the next three or four week period from the policy that the Committee had been maintaining during the past two weeks.

Mr. Shepardson said that his views were essentially the same as those already expressed regarding open market policy for the next three or four weeks. However, he felt the Committee should be in position to take up slack after the turn of the year.

Mr. Fulton said that in the Cleveland District activity was still very high. Farmers by and large were in very good shape. The steel industry was operating above capacity as it had been during 15 of the past 16 weeks, and capacity operations were expected during the first six months of next year. Automobile manufacturers were not buying ahead as heavily as they have at this season in previous years; along with others, they were reducing their inventories in terms of number of days supply because they felt that interruptions to deliveries were less likely to occur now than in earlier years as a result of renewal of labor contracts during the past few months. For example, the automobile industry was now carrying supplies of steel for about twenty days instead of for sixty days, as had been the case in earlier years. Mr. Fulton said that the high price of steel scrap was resulting in greater exports of scrap

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than the steel industry felt to be desirable, and was causing increases in costs of steel production with the result that a further increase in steel prices was considered likely soon after the first of the year. Mr. Fulton did not favor an increase in the discount rate at this time. Free reserves during the next few weeks would not have an important impact because of the feeling of tightness that existed in the market, and because banks and corporations have a reduced liquidity position. The present policy has been good, Mr. Fulton said, adding that restraint could be maintained with comparatively little effort on the part of the System, and reserves should be supplied willingly through the end of the year.

Mr. Williams said that a survey of Christmas retail business in the Philadelphia area last week indicated that the dollar volume was disappointing, although retailers were anticipating they would end the year with sales 1 or 2 per cent higher than last year and none of them were predicting a decline. The international situation had affected consumer attitudes toward spending, but price considerations did not seem to be a factor in the recent disappointing showing of retail sales. Another development of interest in the Philadelphia District was the improvement in the anthracite coal industry around Wilkes Barre which was the last area in the United States to come out of the high unemployment category. This was because of improved sales stemming from the British position, Mr. Williams said. Some improvement also had taken place in textile firms in the district. General plans for capital expenditures indicated that they would be higher in 1957 than

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in 1956 and the highest since 1954. Mr. Williams said that his general attitude was that there should be no change in discount rates between now and the end of the year, that the Committee's directive should not be changed at this time, and that a program of modest restraint was in order.

Mr. Johns said that one of the large banks in the St. Louis District that had been out of debt at the Reserve Bank recently had come back to the discount window and had indicated that it would be borrowing for the next several weeks. He had no other developments in the Eighth District worthy of reporting at this time. With respect to policy, he was completely in agreement with the views expressed by Mr. Hayes, which he understood to have been supported by the others who had commented at this meeting.

Mr. Szymczak said that he too agreed with Mr. Hayes. The borrowing of an additional \$1 billion by the Treasury had affected the market both because it was a large amount and because it was so unexpected. This influence together with developments in the Middle East was all on the expansion side rather than on the other side. However, in the circumstances, Mr. Szymczak felt there was nothing to do but to continue the policy the Committee had been following in recent weeks.

Mr. Balderston said he saw no fundamental change in the situation during the past two weeks. The mixed nature of conditions impressed

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him. Persons close to the steel industry had indicated that there might be another price increase of \$3.50 a ton after the turn of the year, and the Committee knew that further wage increases were inevitable. On the other hand, Mr. Balderston said that softening spots were emerging in the economy and these should be kept in mind lest the leveling off might turn into something that the Committee should be offsetting. Between now and the end of the year he felt that continuance of the current policy was indicated.

Chairman Martin said it was obvious that the international situation was an overriding consideration at the present time, and he reiterated the comment he had made at the preceding meeting that this factor might have long-term implications that would require the Committee's careful study over a considerable period of time. He felt it unfortunate that the price increases we have been and are observing were taking place, but the forces causing them had already occurred and the Committee could do nothing about them at this stage. These price increases probably were working in a restraining manner at this time, Chairman Martin said, and he thought it would become more and more difficult to pass the increases on to consumers. Also, with the capital market in its present condition, normal factors would be working in a restraining manner.

The Chairman went on to say that it seemed clear that the consensus of today's meeting indicated no change in the directive to be issued to the New York Bank.

Mr. Shepardson referred to the Chairman's remark to the effect

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that it was too late for the Committee to do anything about the price increases that had been or now were taking place. He recognized that this might be the case but urged that the Committee be on its guard against development of forces that would result in further price increases, in so far as it was within the Committee's power to influence prices. International factors were of importance right now, he said, and there was unanimity of opinion that the Committee should not apply additional restraint over the year-end period. However, he reiterated his earlier view that after the turn of the year the Committee should be looking for opportunities to exercise whatever control it had to prevent conditions developing to a point where we would have to say that it was too late for the Committee to do anything about price increases.

Chairman Martin stated that this comment was well taken. He then inquired whether any change in the directive to be issued to the New York Bank was believed to be necessary and, in the absence of suggestions, stated that the existing directive would be renewed without change.

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, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions, 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, and it was agreed, that the next meeting of the Federal Open Market Committee would be held at 10:00 a.m. on Tuesday, January 8, 1957. He commented that in the meantime it would be desirable for each member of the Committee, or his alternate, to be prepared to attend an emergency meeting in the event of any development that seemed to make the calling of such a meeting desirable.

Thereupon the meeting adjourned.


Secretary