A meeting of the Federal Open Market Committee was held on Thursday, December 8, 1955, at 10:20 a.m., E.S.T. This was a telephone conference meeting and the location of each individual is indicated in parentheses after his name in the following list of those in attendance:

PRESENT:
Mr. Martin, Chairman (Washington)
Mr. Sproul, Vice Chairman (New York)
Mr. Balderston (Washington)
Mr. Earhart (San Francisco)
Mr. Fulton (Cleveland)
Mr. Irons (Dallas)
Mr. Leach (Richmond)
Mr. Mills (Washington)
Mr. Robertson (Washington)
Mr. Shepardson (Dallas)
Mr. Szymczak (Washington)
Mr. Vardaman (Washington)

Mr. Treiber, Alternate Member, Federal Open Market Committee (New York)

Mr. Riefler, Secretary (Washington)
Mr. Thurston, Assistant Secretary (Washington)
Mr. Thomas, Economist (Washington)
Mr. Vest, General Counsel (Washington)
Mr. Solomon, Assistant General Counsel (Washington)
Mr. R. A. Young, Associate Economist (Washington)
Mr. Rouse, Manager, System Open Market Account (New York)
Mr. Carpenter, Secretary, Board of Governors (Washington)
Mr. Sherman, Assistant Secretary, Board of Governors (Washington)
Mr. Koch, Assistant Director, Division of Research and Statistics, Board of Governors (Washington)
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors (Washington)
Mr. Roosa, Assistant Vice President, Federal Reserve Bank of New York (New York)

Chairman Martin asked that Mr. Rouse review the situation in the market this morning.

Mr. Rouse said that this meeting arose out of developments yesterday afternoon. In late trading, there was a psychological deterioration in the market in the last three-quarters of an hour which apparently was feeding upon itself. The three groups--dealers, country banks and city banks, and nonfinancial corporations--may have been "kidding" each other, but the story got around that country banks were not interested in bidding in the Treasury's bill auction tomorrow. The city banks thought their corporate customers were not interested, and the underwriting banks became less interested themselves. In terms of rates, the auction price for the new bills was estimated at about 2.35 per cent on Tuesday; yesterday the talk was in terms of 2-1/2 per cent; and in the "moonlight" discussions late yesterday there was talk of the possibility of 2-3/4 per cent, or even 2-7/8 per cent. The money position of banks has not been adverse. Net borrowed reserves in the first four statement days of the past week were running a little over $300 million, and in the past three days, while net borrowed reserves have been over $500 million, the market has been relatively comfortable because of accumulated excesses. The situation does, however, reflect in part the relatively unsatisfactory experience that the market is having on the recent Treasury financing exchange, with no buying going on and with the new securities quoted at par with a bid just under par and some trading under par. These developments, as reported by the senior traders at the principal security houses, were such as to suggest an incipient disorder in the market and it was believed desirable to alert the Committee to that possibility.

In response to Chairman Martin's inquiry as to his program, Mr. Rouse said that the situation in the market for Government securities was related to the general situation in the capital market. Municipal inventories of dealers were very heavy, probably in excess of $400 million. Also, recent issues of corporate securities have not been successful and dealers' inventories are building up. There is an atmosphere of gloom and uncertainty. Purchases of bills totalling $85-1/2 million were made for the System account yesterday and the account was now in the process of asking for tenders of bills by dealers--it was anticipated that the account would purchase in the neighborhood of $125 million for cash today. That concluded Mr. Rouse's report.

Chairman Martin asked what in the way of authority Mr. Rouse thought might be needed during the course of the day, and Mr. Rouse said he thought the existing amount of authority was satisfactory. The account is still able to buy bills. He did not think buying bills would necessarily prove to be the answer to the situation if disorder appeared to be developing, but Mr. Rouse said he did not anticipate such a development although there was still a possibility. His only suggestion was that it would be desirable to have the Committee available in case more authority were needed. Mr. Rouse also stated that the authority given by the Committee on November 30 for purchases on a when-issued basis of the new one-year 2-5/8 per cent Treasury certificates had been used to the extent of purchasing $167 million. This authority lapsed yesterday since today the securities became outstanding rather than when-issued securities. Mr. Rouse added the comment that the new securities presumably are in the short-term area encompassed by the Committee's instruction approved at the meeting on March 2, 1955, and their purchase technically would be justifiable if it appeared desirable that such purchases be made.

Chairman Martin suggested that the Committee stay alerted to developments in the market today. His hope would be that repurchase agreements, use of the discount window, and outright purchases of bills would handle the situation.

Mr. Rouse said that in addition to buying bills outright, he was making clear to dealers that there was no reason to think that the repurchase window would not continue to be open through the end of the year as it has been in previous years.

Mr. Mills stated that there had been a precedent in the past on occasions where there has been a "stickiness" in a Treasury financing offering where the Federal Reserve Banks had communicated with the more important member banks in their districts to encourage participation in a particular offering. In the present case, where the central reserve city banks were feeling the pinch of tight money more than the out-of-town banks, there could be good reason for the Federal Reserve Banks, depending on developments during the day, to contact the out-of-town banks by way of suggesting reasonable participation in the tax anticipation bill offering and stating that where the discount window is used to support that participation, it would not under present circumstances be regarded as a violation of the general understanding against continuous borrowing.

Mr. Sproul said that he was getting in touch with the banks in New York and reminding them of their responsibility as underwriters in connection with a Treasury tax anticipation offering such as this, and he felt this would be taken as an indication that the discount window will be open in connection with borrowings for reserves needed to perform that function.

Mr. Mills commented on a point raised by Mr. Fulton that member banks might need encouragement to understand that if they were not in a position to redistribute satisfactorily the securities they acquired within the ten to fifteen day period that is estimated in some quarters as the life of their tax and loan accounts, they would have the facilities of the discount window to carry them for a somewhat longer time until a desirable redistribution might be effected.

Chairman Martin stated that this meeting had been for informational purposes only and that no additional authority was being asked at the present time. He expressed the hope that the System account would not have to go into purchases of the new 2-5/8 per cent certificates any further than it already had done, if that could be avoided. He added, however, that the judgment on such purchases had to be related to developments in the market and that the Committee would stay alerted for any call.

Mr. Sproul referred to the recent performance of the market in connection with the Treasury offering and said that the market might give weight to that factor out of proportion to its real importance. He thought it might be helpful if the System account were to buy some of the 2-5/8 per cent certificates, which would fall within the Committee's instruction that operations be confined to short-term Treasury securities, although such purchases would not fall within the clause indicating a preference for bills. However, the New York Bank would keep the Committee informed and if it thought purchases of the 2-5/8 per cent certificates would be desirable it would let the members of the Committee know promptly.

Chairman Martin stated that for his part he would be guided by the judgment of Mr. Sproul and of Mr. Rouse and others on the desk.

Thereupon the meeting adjourned at 10:37 a.m.

Winfield W. Riefler
Secretary.