

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 Wednesday, June 22, 1955, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Balderston
Mr. Earhart
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mills
Mr. Robertson
Mr. Shepardson
Mr. Vardaman

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Hostetler, Rice, Roelse,
Wheeler, and R. A. Young, Associate
Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Koch, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York

Messrs. Erickson, Johns, Powell, and C. S. Young,
Alternate Members of the Federal Open Market
Committee

Messrs. Williams, Bryan, and Leedy, Presidents of the
Federal Reserve Banks of Philadelphia, Atlanta,
and Kansas City, respectively.

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Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on May 10, 1955, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee held on May 10, May 24, and June 6, 1955, were approved, ratified, and confirmed.

Before this meeting there had been sent to the members of the Committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period May 10 to June 15, 1955, inclusive, and at this meeting there was distributed a supplementary report covering commitments executed June 16-21, 1955. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse noted that the only change reflected in the supplementary report distributed at this meeting was a reduction of \$2,351,000 in the amount of acceptances held by the Federal Reserve Bank of New York under the existing authorization of the Committee. Mr. Rouse said that he felt the market was aware of the fact that there would be a substantial contraction in the volume of reserves between now and the end of this month. There would, however, be some addition to funds in the market tomorrow as a result of maturing tax anticipation notes.

In connection with the forthcoming Treasury financing, Mr. Rouse said that there was considerable discussion in the market as to where the

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reserves which would be necessary to support the financing would come from and whether such reserves would be provided "freely" or "reluctantly". Another topic being discussed, he said, was the current administration of the discount function at the Federal Reserve Banks, there being considerable gossip to the effect that the discount window was "practically closed, a la 1953". Mr. Rouse stated that while this was gossip, he felt it should be reported to the Committee since the comments persisted.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period May 10 to June 21, 1955, inclusive, were approved, ratified, and confirmed.

Chairman Martin referred to the suggestion that he had made at the meeting on March 2, 1955 that consideration be given to abolishing the executive committee of the Federal Open Market Committee and that the matter be placed on the agenda for discussion at this meeting. He went on to say that his thinking had not changed very much since March, that he considered the Open Market Committee to be the heart and core of the Federal Reserve System, and that the experience of the last few months gave further indication of the desirability of having the full Open Market Committee take the responsibility for decisions not only of policy but also as to open market operations. It was Chairman Martin's view that there was merit in abolishing the executive committee. He recognized, however, that there might be another side to the question, and he wanted to be sure that adequate time was given for consideration of the question,

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especially if any of the members of the Committee or other Federal Reserve Bank Presidents had doubts as to the desirability of such action.

Chairman Martin then referred to the letter distributed by the Secretary under date of May 10, 1955, which transmitted a draft of proposed action of the Federal Open Market Committee abolishing the executive committee, prepared by Mr. Vest, and he requested that Mr. Vest outline the changes that would be necessary in the event the executive committee were abolished.

Mr. Vest made a statement in which he said that if the Federal Open Market Committee should determine to abolish the executive committee it would seem necessary to make certain changes in (1) its Regulation relating to Open Market Operations of Federal Reserve Banks, as amended June 19, 1952; (2) the Rules on Organization and Information of the Federal Open Market Committee, adopted effective September 11, 1946; (3) the Rules on Procedure of the Federal Open Market Committee, adopted September 11, 1946, and (4) the by-laws of the Federal Open Market Committee, as amended March 1, 1952. It would also seem desirable, Mr. Vest said, that the Committee take action to adopt as its own actions and authorizations any currently effective actions and authorizations of the executive committee now outstanding, and he called attention particularly to the draft of proposed action which had been distributed to the members of the Committee on May 10, 1955.

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Mr. Vest further stated that if the executive committee should be abolished there should be a directive from the full Committee to the Federal Reserve Bank of New York providing the same authority as was now provided through the directives of the full Committee to the executive committee and of the executive committee to the New York Bank. In commenting on such a directive, Mr. Vest stated that he had prepared a draft which was substantially the same as the existing directive from the executive committee to the New York Bank but which would omit the existing clause (c) of the full Committee's directive to the executive committee, which clause provided that the executive committee should arrange for transactions with a view, among other things, "to correcting a disorderly situation in the Government securities market". Mr. Vest explained that the reason for omitting that clause from the draft of directive from the full Committee to the New York Bank was because, under the terms of the action of the full Committee at its meeting on March 4, 1953, intervention to correct a disorderly situation in the Government securities market could be initiated only upon the affirmative vote of the executive committee after the existence of a situation seeming to require correction had come to its attention through notice from the Manager of the Account or otherwise -- even though it was recognized at that meeting that, in the event of an emergency such as an international crisis, it might not be possible to canvass all members of the executive committee before initiating such intervention. It was Mr. Vest's thought that, in view of this existing

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policy of the Federal Open Market Committee, it would not be appropriate to include in the directive to the New York Bank as agent an instruction to arrange for transactions with a view to correcting a disorderly situation in the Government securities market.

Mr. Vest stated that if the executive committee were to be abolished, it would be in accord with the spirit of the Administrative Procedure Act and desirable to publish in the Federal Register appropriate notices of the changes in the Rules on Organization and Information and in the Rules on Procedure, which had been published in the Federal Register in 1946, as well as to publish the Regulation Relating to Open Market Operations of the Federal Reserve Banks, as revised.

Chairman Martin said that in the event the executive committee were to be abolished his thought was that meetings of the Open Market Committee in the future generally should be held at intervals of three weeks instead of two weeks, as had been the case with meetings of the executive committee during recent years.

Mr. Sproul stated that he assumed there was no substantial legal question involved in the proposal to abolish the executive committee. The executive committee has been legally constituted and could be legally continued, which meant that the Committee was left with the question whether to continue the executive committee as a matter of administrative appropriateness, efficiency, and convenience. Mr. Sproul then made a statement substantially as follows:

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I am overlooking - or at least disregarding - the reiterated charge of Congressman Patman that Congress gave this great power of directing open market operations of the Federal Reserve Banks to twelve men, the twelve men gave it to five, the five gave it to one, and it ended up in the hands of Wall Street. I continue to cling to the belief that we shouldn't change our organizational structure in order to try to accommodate ourselves to the attacks of the Congressman.

Now, under present arrangements, with members of the full Committee who are not members of the executive committee invited to attend meetings of the executive committee, we have been having what are in effect meetings of the full Committee every two weeks. This has proved to be possible and desirable and it might be said to clinch the argument that our present command over time and space makes the executive committee no longer necessary. Nevertheless, I think there is something to be said for keeping an executive committee in being as an administrative technique, even though our bi-weekly meetings (or our meetings every three weeks as suggested) become meetings of the full Committee in name as well as in fact, and the executive committee meets only on call. There may be times when it will be desirable to have a properly constituted body which can be assembled in a matter of hours, not to make policy but to refine policy made by the full Committee on its way to the management of the Account, as in case of disorderly markets. And there may be emergency situations in which such a properly constituted body would be in a position to make policy, temporarily, in behalf of the full Committee on something better than an ad hoc basis.

It has been suggested, I know, that such situations can be met, when necessary, by a few telephone calls, but I have never had much confidence in this method of reaching committee decisions except on routine matters. When something more than routine consent is the business at hand, a telephone canvass is no substitute for a face-to-face meeting at which ideas can be developed and debated, and the reaction of your associates to those ideas can be observed and taken into account. A telephone canvass depends too much on who asks the question and how he asks it.

I am left with the feeling - and it is no more than that - that we would be giving up something we may want or need if we abolish the executive committee. I would prefer to have our present bi-weekly meetings (or meetings every three weeks)

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of the executive committee changed into meetings of the full Committee, but to have the executive committee kept in being, for possible use in special circumstances to sort out issues as between top policy and spot policy, and in emergency conditions temporarily to make top policy. In other words, I do not think we have to abolish the executive committee in order to try to make sure that the full Committee accepts and discharges its responsibilities under the law, and there may be occasions when those responsibilities can be better discharged if an executive committee is kept in existence.

If the executive committee is abolished, we should certainly have in mind the continuance of such meetings as this, at least four times a year, when all parts of the System are brought together to discuss matters of broad policy and important operations. And there should be better preparation for these meetings, in terms of a carefully prepared agenda and necessary background documents available well in advance, and more time allowed for deliberation and discussion, even though we take one or two days to it, instead of half a day.

Mr. Leach said that, as a member of the full Committee and of the executive committee since March 1 of this year, he had been impressed by the fact that almost all members of the full Committee had attended each of the meetings of the executive committee held during the past three months. On the basis of this experience, it seemed to him practicable to have meetings of the full Committee frequently, and he had come to the conclusion that there was no real need for an executive committee. If the executive committee were abolished, Mr. Leach felt that, as Mr. Sproul had suggested, there should continue to be at least four major meetings of the Federal Open Market Committee a year at approximately quarterly intervals at which all of the Presidents of the Reserve Banks would be present when policy matters could be fully discussed. He also suggested

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that attendance of voting members at meetings of the Open Market Committee scheduled at more frequent intervals, such as every three weeks as suggested by Chairman Martin, might be aided if the groups of three Federal Reserve Banks (such as the Boston, Philadelphia, and Richmond Banks) were to elect two alternate members, instead of only one as is now provided.

Mr. Leedy said there was only one phase of the proposal that gave him concern. This was the question whether abolishment of the executive committee would mean that the Presidents who served in rotation but who were not currently members of the Committee might be placed further out of touch with the work of the Committee than has been the case in the past. If the practice were continued of having four meetings a year of the type now held, at which policy matters were fully discussed, the proposed change might have no effect. However, if policy actions might be taken at each of the meetings suggested at three week intervals, and if the Reserve Bank Presidents not serving on the Committee were not to be given an opportunity to participate in these meetings, Mr. Leedy's concern was that some Presidents would not be kept as closely in touch with the work of the Committee as they would like to be and as they ought to be.

Chairman Martin said that Mr. Leedy's question came as a surprise since it had never occurred to him that the quarterly meetings of the type held in the past at which all of the Presidents were in attendance would be abolished. Nor had it entered his mind that any President would not

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feel welcome to attend any meetings of the Federal Open Market Committee that might be held in the future, if he wished to do so and felt that he could do so. His proposal, the Chairman said, was intended to give everybody more participation rather than less participation than they might have had in the past in all the decisions of the Open Market Committee. He did not have in mind abolishing in any way the responsibilities of the Open Market Committee or the responsibilities or participation of any of the persons connected with it.

Mr. Leedy responded that he was glad to hear Chairman Martin's statement, adding that he was not opposed to the proposal to abolish the executive committee and that his concern had been that the Presidents not serving on the Committee have an opportunity to be in attendance at meetings where major matters of policy might be considered.

Mr. Balderston said that on at least one occasion during the past spring he felt the executive committee did not take the action that was indicated at the time simply because it was inhibited from doing so--it did not have the power of the full Committee. He had the feeling, he said, that had the full Committee been meeting the timing of Committee actions might have been better than it was. Mr. Balderston said that he was concerned about being too late and about not acting on time. He was very strongly in favor of Chairman Martin's suggestion that the executive committee be abolished and of Mr. Sproul's proposal that the thorough-going quarterly reviews of the economic and credit situation and of policy and

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operating matters be continued at the time of the meetings of the Conference of Presidents.

Mr. Robertson said that he felt the executive committee was no longer needed in view of improved communication and transportation facilities. The holding of frequent meetings of the full Committee would in no way detract from the need for continuing the thorough-going quarterly reviews of the situation when all Reserve Bank Presidents were in Washington, since it would be impossible to expect that all Reserve Bank Presidents could attend all Open Market meetings held at three week intervals. Mr. Robertson also suggested that the point mentioned by Mr. Leedy might be covered by providing specifically that all Presidents of the Federal Reserve Banks be invited to be present at meetings of the Open Market Committee.

Mr. Vardaman stated reasons why he felt it was desirable to abolish the executive committee, including particularly the fact that he believed such action would bring the Reserve Bank Presidents closer to the consideration of open market matters and make them more available for consideration of such matters. Mr. Vardaman also said that he was sympathetic to Mr. Leach's suggestion that all Reserve Bank Presidents not currently members of the Committee be elected to serve as alternate members.

Mr. Johns said that he had much the same feeling as that expressed by Mr. Leedy. Under present procedure, when he was a member of the Committee he considered that he was expected to attend all quarterly meetings

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of the Committee and he did not let anything take precedence over that obligation. This was different, he felt, from merely being "welcome" or "invited" to be present if he wished to be. If he were expected to be here, he would be here every three weeks; but he would like to have a more specific and definite understanding than was indicated by Chairman Martin's suggestion that all Presidents would be "welcomed" at the meetings.

Chairman Martin said that there was the statutory problem; there were only twelve who could vote on open market matters. He did not see how the Committee could compel others to attend the meetings. It could invite but could not "expect" the others to attend frequent meetings if they had no vote. Thus, a President who was not actually a statutory member of the Committee should not feel under compulsion to attend the meetings, and he noted that the President-members had alternates so that the Committee could have a full representation even when some of the President-members could not attend. It was important, he said, that each voting member be present at each meeting if possible or that he be represented by his alternate.

Mr. Johns commented that those who were not members of the Committee had been called upon to vote and required to vote on a matter before the Committee and, in response to Chairman Martin's query, he said he referred to the Chairman's request at the meeting held on March 2, 1955, that all Reserve Bank Presidents vote on the question of a study to review the structural and operating organization of the Federal Open

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Market Committee. The vote of the non-members was not a legally binding vote, Mr. Johns said, but they had been requested and expected to vote on the proposed study.

Chairman Martin said that when he made the request to which Mr. Johns referred, he did not have any objection to any of the Presidents not voting if they preferred not to do so. However, he then thought the proposal was of such importance that each President should have an opportunity to express himself if he cared to do so.

Mr. Earhart said he was in favor of abolishing the executive committee and having the meetings as needed of the full Committee. He could see, however, that at times some of the President-members might find it very difficult to be present at meetings held every three weeks, and he raised the question as to the procedure to be followed in ascertaining whether the alternate for the President could attend.

Mr. Riefler explained the existing procedure under which all Committee members were advised in advance of meetings and if any indicated they would be unable to attend, the Secretary promptly communicated with the alternate to ascertain whether he could attend. Later in the meeting, Mr. Earhart noted that under the by-laws whenever any member of the Committee representing Federal Reserve Banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram,

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and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting.

Mr. Williams stated that the difficulties foreseen in adopting Chairman Martin's proposal seemed to him to be inherent in any change. Under the circumstances, he thought there ought to be some experimentation with the proposal.

Mr. Balderston said that he thought the best answer to the question raised by Mr. Leedy and Mr. Johns was that the Presidents were wanted at the meetings of the Federal Open Market Committee if their arrangements in their individual districts permitted them to attend; they need not feel compelled to attend, but they should feel that they were useful and that it was desired that they attend if they could do so.

Mr. Sproul said that he thought the question went beyond the point discussed. In the past, there has been an organization which has met when all the Presidents were present in Washington and at which meetings there had been major discussions of the economic and credit situation and of policy and operating matters. Out of these discussions, the whole System moved as a body. Under the existing proposal, it would now be possible (although it was not a likelihood) that less than the whole System would make major moves of policy. In the situation which Mr. Balderston had described when he felt the executive committee had failed to act because it was inhibited, he had indicated that had all twelve

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members of the Open Market Committee been present, a major change of policy might have been made without the other Federal Reserve Bank Presidents participating in its consideration or knowing that it was being considered. Mr. Sproul felt that the difficulty could be overcome if, whenever consideration was to be given to any major change in policy, all Reserve Bank Presidents were advised of the meeting and arrangements were made for them to be present without regard to other commitments they might have.

Chairman Martin said it was apparent that the quarterly meetings of the type held in the past should not be abolished. However, there were still only twelve votes and there could be only twelve votes on policy at those quarterly meetings. Everything possible should be done to broaden the responsibility and the participation of all of the Presidents in these discussions. It was not always possible to say in advance when a major change in policy might be considered, however, and Chairman Martin suggested that there was a responsibility on each individual President and on each member of the Board of Governors to keep himself sufficiently current with the situation and with the possible need for changes that might arise so that each individual might sense when a major policy question was likely to come up.

Mr. Johns suggested that a President might think he was keeping himself informed but he might not, as an individual, see the necessity for

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taking an action which another person would have in mind. In order to keep abreast of developments, Mr. Johns felt it would be necessary, in his case at least, to be present at every meeting in order to know when changing conditions might call for consideration of major policy changes.

Chairman Martin agreed with Mr. Johns and added the comment that this responsibility devolved upon each President and each member of the Board of Governors.

Mr. Robertson suggested that in the future the Secretary of the Committee inform each Reserve Bank President as well as each member of the Board of Governors as fully as possible in advance of each meeting of all matters that might come up for consideration.

Chairman Martin stated that he felt it important for all members of the Board and all Reserve Bank Presidents to be more abreast than they have been at times in the past of developments which might affect policy. This was the objective and purpose of his suggestion for abolishing the executive committee. There were cases in which Congressmen and others felt that "islands of responsibility" developed in the System, not only at the New York Bank but at other places. Chairman Martin said that in his judgment there had been some validity to some of these criticisms, and there had been some cases in which "islands" had developed in the System. This was a problem which should be kept before the Board and all Reserve Banks. There also had been times, he said, when he felt that not

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all of the Board members or the Presidents had participated in discussions of System matters to the extent that would be desirable. This could be improved. It was Chairman Martin's belief that everything possible should be done to improve the understanding and participation of all parts of the System in carrying out its responsibilities.

Mr. Sproul said that he agreed wholly with the objective of greater understanding and participation stated by Chairman Martin. If there have been "islands of responsibility" in the System, however, they have not been due to organizational structure, but rather to the competition of other interests and to the zeal or lack of zeal which some had shown for participation in the work of the Federal Open Market Committee, the heart and core of the System to which the Chairman had referred.

Mr. Mills said that the discussion this morning indicated a little hesitation among the Presidents of the Federal Reserve Banks on whether the proposed abolition of the executive committee would accomplish the objective which Chairman Martin had in mind of promoting the concept of the Federal Reserve through the broadest possible participation in problems that arise within the System. This was largely because of the difficulty which the Presidents would have in attending all meetings of the full Committee which would be scheduled at approximately three week intervals. If this was a correct assumption, Mr. Mills said, there had already been much progress made through having meetings of the executive committee at two week intervals to which alternate members of the executive committee

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were invited. Under this arrangement the quarterly meetings of the full Committee with all of the Reserve Bank Presidents in attendance allowed full discussion of policy matters. Mr. Mills noted that Mr. Vest had indicated that if the executive committee were abolished it would be necessary to publish a statement regarding that change in the Federal Register--a change in the administrative program which might or might not be lasting. Mr. Williams had pointed out that the plan would be experimental, and Mr. Mills raised the question whether the experiment could be accomplished within the present framework of the Open Market Committee's organization. If Open Market meetings were held at intervals of three weeks and all Presidents were invited to attend and found it possible to attend, the executive committee would be abolished as a de facto procedure but not de jure. The proposal could be experimented with without eliminating the executive committee entirely, and Mr. Mills said that he had in mind the difficulties that might arise in the event of an emergency and the development of a disorderly market where a decision to act to correct such a situation had to be made by the Committee. In such an event, the smaller the group necessary for making such a decision, the more likely that the decision could be reached promptly and the necessary corrective action brought to bear. If the executive committee were thus retained in the manner suggested by Mr. Mills, the decision as to correcting a disorderly market situation could be allowed to remain in the executive committee.

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Chairman Martin said he had given a great deal of consideration to the question Mr. Mills raised. It seemed to him that the Committee had been experimenting in various ways for two or more years, trying to get more participation on the part of those connected with the operation. He did not believe any purpose would be served by continuing on an ad hoc basis without facing up to the question of the Committee's problems. Chairman Martin referred to the responsibilities of the Federal Reserve System, stating that he felt these responsibilities just the same as other Board members and Presidents do and that he believed the best procedure was to get all of those problems before the group. There had been discussions as to whether individuals were welcome at the desk at the New York Bank and whether they were welcome to attend meetings here at the Board if they were not statutory members of the Open Market Committee. His view was that the time had come to make a decision and not to engage in halfway measures. He wanted to see whether there was some way of eliminating some of the difficulties that had shown up in the past. Chairman Martin said that Mr. Mills was correct in feeling that some of the Presidents expressed concern regarding his proposal for abolishing the executive committee, but he personally had no concern. He felt this course should be followed not only on a de facto basis but as a matter of recognized change. Mr. Sproul had indicated the view quite sincerely that the structure of the organization was working on a sound basis, and Chairman

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Martin said he recognized Mr. Sproul might be correct in this view. However, his own feeling was that the present structure had difficulties which the Committee should try to eliminate.

Mr. Johns said that he would not wish to be misunderstood. He was not reluctant to come to a meeting of the Federal Open Market Committee every three weeks and he would not feel unwelcome to attend such meetings even though not a statutory member of the Committee, if Chairman Martin's proposal were to be adopted. He wished to make it clear that if the proposal was adopted he would plan to attend all meetings that were called, unless something uncontrollable intervened to prevent his attending. Mr. Johns went on to say, in response to a question from Mr. Robertson, that he had obtained a fully satisfactory answer to the question he had posed earlier this morning.

Mr. Robertson suggested that it would be desirable to give all Reserve Bank Presidents an opportunity to express themselves on the matter.

Chairman Martin stated that he would be glad to have this procedure followed with the understanding that if any of those who were not members of the Committee did not care to express views on the proposal, they need not feel called upon to do so. He then asked for expressions of opinion on the proposal to abolish the executive committee, and all of the members of the Committee who were present as well as the Reserve Bank Presidents indicated that they would favor the proposed action, except Mr. Mills and Mr. Sproul who stated that they would do so with reluctance,

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and Mr. Bryan who stated that he would prefer not to express a view although he would not wish to be understood as indicating opposition to the proposal.

Thereupon, upon motion duly made and seconded, the Federal Open Market Committee approved by unanimous vote the following actions:

(1) That the Regulation of the Federal Open Market Committee relating to Open Market Operations of the Federal Reserve Banks, as amended effective June 19, 1952, is hereby further amended effective immediately as follows: (i) by striking out all of subsection (e) of section 2 of such regulation and all of section 5 thereof, and (ii) by appropriately renumbering subsequent sections of the regulation.

(2) That the Rules on Organization and Information of the Federal Open Market Committee adopted effective September 11, 1946, are hereby amended effective immediately as follows: (i) by striking out all of section 3 of such rules and by appropriately renumbering the subsequent sections thereof, and (ii) by striking out the words "or its Executive Committee" in the first sentence of subsection (c) of the existing section 6 thereof.

(3) That the Rules on Procedure of the Federal Open Market Committee adopted effective September 11, 1946, are hereby amended effective immediately as follows: (i) by striking out the words "to its Executive Committee or" in the next to the last sentence of section 2 of such rules, (ii) by striking out the words "under the direction of the Executive Committee" in the last sentence of section 2 thereof, and (iii) by striking out "or its Executive Committee" in section 5 of such rules.

(4) That the by-laws of the Federal Open Market Committee, as amended March 1, 1952, are hereby further amended effective immediately as follows: (i) by striking out the words "and the minutes of all meetings of the Executive Committee held since such meeting" in paragraph 1 of section 7 of Article I of such by-laws, (ii) by striking out the word

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"both" and the words "and the Executive Committee" in the last sentence of section 5 of Article II thereof, (iii) by striking out all of Article III thereof and renumbering Article IV as Article III.

(5) That all actions taken, resolutions adopted, and authorizations granted heretofore by the executive committee, which are still in effect, are hereby adopted by the Federal Open Market Committee as its actions, resolutions, and authorizations as fully and effectively as if they had been originally taken, adopted, or granted by the Federal Open Market Committee and are continued in effect until such time as they may be rescinded or modified by the Federal Open Market Committee. Any presently existing authority of, or instruction to, any Federal Reserve Bank or the Manager of the System Open Market Account which is derived from action taken by the Executive Committee pursuant to authority conferred upon the Executive Committee by the Federal Open Market Committee is continued in effect, subject to the same terms and conditions as now apply to such authority or instruction, until rescinded or modified by the Federal Open Market Committee. Any matter heretofore requiring action by the Executive Committee must hereafter be acted upon by the Federal Open Market Committee. Any and all powers, authorities, obligations, and responsibilities heretofore conferred upon the executive committee by the Federal Open Market Committee are hereby rescinded.

In taking these actions, it was understood that notices of the changes in the Rules on Organization and Information and in the Rules on Procedure would be published in the Federal Register, and that the amended regulation relating to open market operations would be published in full in the Federal Register.

In response to a question from Mr. Shepardson, Chairman Martin stated that as a part of the action abolishing the executive committee, it would be understood that the Secretary hereafter would notify all members of the Federal Open Market Committee and all other Presidents of

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the Federal Reserve Banks of all meetings of the Committee. He also stated that it was hoped that all members of the Committee and all other Presidents would be able to attend such meetings in the future.

Secretary's Note: In accordance with this understanding, Section 2 of Article I of the by-laws of the Federal Open Market Committee was changed to eliminate the former provision that alternate members were not entitled to attend meetings of the Federal Open Market Committee except in the absence from a meeting of the member for whom such alternate is elected. The by-laws as amended effective June 22, 1955, are as follows:

ARTICLE I. MEMBERS

Section 1. Organization - Prior to the first meeting of the Committee following March 1 each year, each member of the Committee representing the Federal Reserve Banks shall cause a record of his election and of the election of the alternate to serve in his absence to be forwarded to the Secretary of the Committee. If any question be raised as to the election or eligibility of such member or alternate, the Committee shall determine such question before permitting such member or alternate to participate in the meetings.

Section 2. Alternates - In the event a member is absent from a meeting of the Committee, his alternate, in attending the meeting, shall have the same status as the member for whom he is serving.

Section 3. Oath - Each member of the Federal Open Market Committee and each alternate shall take the same oath of office as that required by the Constitution for officers of the United States.

Section 4. Quorum - Seven members (including alternates present and acting in the absence of members) shall constitute a quorum for the transaction of business; but less than a quorum may adjourn from time to time until a quorum is in attendance.

Section 5. Meetings - The Committee shall meet in Washington, D. C. at least four times each year and oftener if deemed necessary. Meetings shall be held upon the call of the Chairman of the Board of Governors of the Federal Reserve System or at the request of any three members of the Committee. Notices of

calls by the Chairman to other members shall be given by the Secretary. Requests of any three members for the calling of a meeting shall state the time therefor and shall be filed in writing or by telegram with the Secretary who shall forthwith notify all members of the Committee in writing or by telegram. When the Secretary shall have sent notices to all members of the Committee that a meeting has been requested by three members and of the time therefor, a meeting shall be deemed to have been called. Whenever any member of the Committee representing Federal Reserve Banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram, and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting.

Section 6. Conduct and Deliberations - The proceedings, deliberations, discussions, and actions of the Committee, except as required by law and except as authorized by the Committee, shall be strictly confidential, and no information shall be released except as authorized by the Committee and in the annual report required to be made to Congress by section 10 of the Federal Reserve Act as amended.

Section 7. Order of Business - The following shall be the order of procedure to be followed at meetings of the Committee:

1. The Secretary shall present the minutes of the last meeting of the Committee.
2. The Manager of the System Open Market Account shall make his report of all operations of the System Open Market Account occurring since the preceding meeting.
3. The Committee Economist shall make his report.
4. The Committee shall then consider open-market policies.

By a majority vote of members present, the Committee may adopt a different order of business for any particular meeting.

ARTICLE II. OFFICERS

Section 1. Chairman and Vice Chairman of the Committee - At its first meeting on or after March 1 of each year the Committee shall elect a Chairman and a Vice Chairman to serve until the first meeting on or after March 1 of the next year. The Chairman of the Committee shall preside at all meetings thereof and shall perform such other duties as the Committee may require. The Vice Chairman shall perform the duties of the Chairman in the absence of the Chairman.

Section 2. Secretary and Assistant Secretary - At its first meeting on or after March 1 of each year the Committee shall elect a Secretary and an Assistant Secretary to serve until the first meeting on or after March 1 of the next year. It shall be the duty of the Secretary to keep minutes of all meetings of the Committee and a complete record of the action taken by the Committee upon all questions of policy relating to open-market operations and he shall record the votes taken in connection with the determination of open-market policies and the underlying reasons assigned therefor. He shall have custody of such minutes and records and shall perform such other duties as the Committee may require. In the absence of the Secretary of the Committee, the Assistant Secretary shall act as Secretary pro tem.

Section 3. Economist and Associate Economists - At its first meeting on or after March 1 of each year, the Committee shall elect an Economist to serve until the first meeting on or after March 1 of the next year. The Committee shall also from time to time, as it may decide, elect one or more Associate Economists. The Economist shall prepare for the use of the Committee and present to it such information about business and credit conditions as will assist the Committee in the determination of open-market policies, and shall perform such other duties as the Committee may require.

Section 4. General Counsel - At its first meeting on or after March 1 of each year the Committee shall elect a General Counsel and an Assistant General Counsel to serve until the first meeting on or after March 1 of the next year. It shall be the duty of the General Counsel to furnish such legal advice as the Committee may require. In the absence of the General Counsel, the Assistant General Counsel shall act as General Counsel pro tem.

Section 5. Manager of the System Open Market Account - The Committee shall select a Federal Reserve Bank to execute transactions for the System Open Market Account. Such Bank shall select a Manager of the System Open Market Account who shall be satisfactory to the Committee. He shall serve at the pleasure of the Committee and shall attend all meetings of the Committee.

Section 6. Filling Vacancies - At any meeting the Committee may fill any vacancy in the office of Chairman, Vice Chairman, Secretary, Assistant Secretary, Economist, Associate Economist, General Counsel, or Assistant General Counsel.

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ARTICLE III. AMENDMENTS

These by-laws may be amended at any meeting of the Committee by a majority vote of the entire Committee.

Mr. Vest inquired whether, in approving the abolishment of the executive committee, the Committee also approved the revisions in the form of directive heretofore issued to the Federal Reserve Bank of New York, which revisions he had outlined earlier this morning in describing the changes that would be necessary if the executive committee were abolished, including the omission from the revised directive of the clause formerly in the full Committee's directive to the executive committee relating to action to be taken to correct a disorderly situation in the Government securities market.

Chairman Martin responded that it was understood by the Committee's vote that the revised directive outlined by Mr. Vest earlier during the meeting was approved as to form, as the directive to be issued later during this meeting by the Committee to the agent Bank.

Secretary's Note: In view of the action of the Federal Open Market Committee abolishing the executive committee at this meeting, members of the executive committee individually indicated to the Secretary their approval of the minutes of the meeting of the executive committee held on June 6, 1955 in the revised form in which they were distributed on June 20, 1955.

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Mr. Riefler stated that a question recently was raised by a member of the executive committee who did not expect to attend a meeting of that committee whether, in the absence of himself and the associate economist from that Bank, it would be appropriate to have another member of his staff (an economist) attend a meeting of the executive committee as an observer. Mr. Riefler said that after discussing the matter with Chairman Martin, it was agreed that the question of the extent to which observers should be invited to attend meetings of the Federal Open Market Committee should be discussed at this meeting.

Mr. Sproul said that if a member of the Committee made an express request that a member of his staff attend a specific meeting, it might be desirable to permit such attendance as a means of preserving as much continuity in attendance at meetings of the Committee as was possible. However, Mr. Sproul questioned the advisability of extending unduly the size of the meetings since there was a tendency for them to grow into "town meetings" and the larger the number in attendance, the less likely that the discussions would be of the character that discussions at open market meetings should be.

Chairman Martin commented that this was the approach he took to the suggestion. He thought the burden of responsibility should fall on the individual members of the Committee and the other Reserve Bank Presidents to attend the meetings or to have their alternates present if it came to voting on matters before the Committee. Chairman Martin also

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noted that the larger the number of persons attending meetings, the more difficult it became to maintain the confidential nature of the discussions and actions.

Mr. Young said that he would not be in favor of having staff members brought into the meetings as observers and that in his view continuity of attendance could be preserved through attendance of the members of the Committee, the other Reserve Bank Presidents, and the associate economists.

Mr. Fulton expressed a somewhat different view, stating that it would be helpful to have different members of the staff know how meetings were conducted. He did not think this should be a regular practice but felt there were advantages to be gained by having observers present occasionally.

Following a discussion, Chairman Martin suggested, and it was agreed, that in the light of the comments made at the meeting, it be understood that as a general practice observers would not be permitted to attend meetings of the Federal Open Market Committee. It was also understood that this was not intended to restrict a President from giving members of his staff access to necessary documents on the basis of the broad responsibility that the individual President might feel for keeping himself and his staff informed.

Chairman Martin then called upon Mr. Vest for comment on a memorandum distributed under date of June 2, 1955 with respect to possible

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changes in the wording of the directive from the Federal Open Market Committee, discussed at the meeting on May 10, 1955. The memorandum reviewed the changes in wording which had been discussed at that meeting and suggested alternative language that might be used in the event the directive were to be changed. It stated, however, that it was the consensus of the staff that it would be preferable not to make a change in the form of the directive in the immediate future unless some further change of policy of the Committee should make necessary a change in the directive.

During the ensuing discussion, several members of the Committee indicated that they felt the alternative wording presented in Mr. Vest's memorandum of June 2 would be preferable to that now in the directive, but that they would not be disposed to make a change solely for the purpose of modifying language. Chairman Martin commented that the question was largely a matter of "tidying up" wording, that he did not have a strong feeling on the question, but that his judgment would be that while the revised wording would improve the language of the directive it would be preferable not to make a change unless some further change of policy of the Committee was being made.

Some additional changes in language were also suggested during the discussion, and Chairman Martin commented that he felt it was not practicable to draft language for a directive in meetings of this size. At the conclusion of the discussion, it was agreed that the revised language outlined in Mr. Vest's memorandum should not be incorporated in the

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directive at the present time but that it would be considered whenever a change in policy made some change in the wording of the directive necessary.

Chairman Martin next referred to a memorandum from the Secretary with respect to suggested revisions in several continuing operating policies of the Committee as proposed by Mr. Robertson at the meeting on March 2, 1955, which was sent to the members of the Committee under date of June 3, 1955. At his request, Mr. Robertson commented upon the changes which he would propose be made in the continuing operating policies of the Committee, noting that his changes were intended to be changes of language which would clarify the intent of the Committee in its continuing statements of policy relating to support of Government securities, intervention in the Government securities market, operations in the short end of the market, operations during a period of Treasury financing, and operations for the purpose of providing or absorbing reserves. Chairman Martin then called upon Mr. Sproul who made a statement substantially as follows:

I am sure that you will all understand that I continue to be opposed to anything which tries narrowly to limit System or Open Market Committee responsibility solely to the volume of bank reserves, that I continue to oppose our renunciation of all or any transactions directly related to security issues involved in Treasury financings and the prohibition of swaps, and that I oppose the limiting of our transactions to short-term securities, preferably bills.

Whatever suggestions I have to make concerning Governor Robertson's proposed wording of our directives with respect to continuing operating policies are, therefore, relatively minor and probably gratuitous, since I probably will have to vote against the whole resolution.

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Mr. Sproul then suggested some changes in language which he felt might be desirable if the revision proposed by Mr. Robertson were to be acted upon.

Chairman Martin stated that he hesitated to have language of policy statements changed without having given an opportunity for all members of the Committee to study the suggested changes carefully. It was his view that the proposal made by Mr. Robertson as well as the suggestions made by Mr. Sproul should be made available to all members of the Committee before they were called upon to vote on a change.

Mr. Sproul said that he agreed with the position taken by Chairman Martin, that he felt it was desirable to have time to study the proposed language of the statements of operating policies, and that it was not practicable for the Committee as a whole to draft language in meetings such as this.

Following further discussion,
Chairman Martin's suggested procedure was approved unanimously.

At the meeting on March 2, 1955, Mr. Robertson made a statement with respect to the use of repurchase agreements in which he proposed that their use be continued where considered advisable, not as a supplementary technique in the regulation of credit, but for the purpose of enabling dealers in Government securities to maintain broad and ready markets. His statement suggested that this procedure be utilized in a manner similar to

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rediscount operations--an open window for carrying dealers at rates preferably above but in no event below the discount rate--in order to assist them in sustaining a closer and more continuous market. Under this arrangement, dealers should feel assurance that the facility was always available to them within reasonable limits, as the discount window is open to member banks.

Chairman Martin noted that it had been understood that Mr. Robertson's proposal would be considered at this meeting, and he then called upon him to make such supplementary remarks as he felt were desirable in connection with his suggestion.

Mr. Robertson said that he continued to have grave doubts as to the legality of the repurchase instrument and as to its efficacy in providing or absorbing reserves in the market. He had the feeling, he said, that the same results could flow from thoroughly legal instruments, such as cash transactions in Government securities. The major point with respect to repurchase agreements, he said, was that they were for the purpose of aiding dealers in making markets for Government securities, and this he thought could be done much more efficiently if the Federal Reserve Banks made a completely impersonal arrangement similar to that followed in discount policy.

Mr. Mills said that he had two questions regarding Mr. Robertson's proposal. First, the purpose of repurchase agreements, he said, was to

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supply reserves to the market through a device other than general open market operations. This being the case, the judgment as to when those reserves should be provided properly should rest with the management of the System account. The initiative for providing or absorbing reserves should lie with the System, Mr. Mills said, rather than with individual dealers whose reasons for seeking repurchase agreements might not necessarily coincide with the objectives of System policy. Secondly, Mr. Mills said that an arrangement such as Mr. Robertson proposed was objectionable in that through it the System would in a sense be granting limited membership in the Federal Reserve System to the dealers. He did not feel this would be warranted.

Mr. Bryan said that he was sympathetic to Mr. Robertson's proposal. As he had observed the use of the repurchase agreement, the instrument did not have the purpose of a monetary policy instrument for adding to or subtracting from reserves. It was a device that could give some assurance to the Committee that it did not get a rate that went far beyond the intentions of the Committee in periods of tightness. Thinking of the discount rate as the considered System policy, Mr. Bryan said that he felt the System might use the repurchase agreement at some penalty rate above the discount rate, knowing that so long as it was above the discount rate dealers would scramble otherwise to obtain funds before resorting to the repurchase agreement. Mr. Bryan said that he had tended to view the instrument in this manner rather than as an instrument of monetary policy.

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If it was an instrument of monetary policy, he doubted whether it was a good one.

Chairman Martin said that he was sympathetic to the view expressed by Mr. Bryan as well as that of Mr. Robertson, but that he thought there were problems of administration of a proposal such as Mr. Robertson had made and such a change in policy should not be embarked upon without thorough study. Chairman Martin said that he preferred impersonal dealing to personal dealing at all times, and that this was one of the problems the Committee should be studying continuously. He then called upon Mr. Sproul for an expression of his views.

Mr. Sproul made a statement substantially as follows:

1. I disagree with Governor Robertson's general view that repurchase agreements should not be used as a supplementary technique in the regulation of credit but should be used for the purpose of enabling dealers to maintain broad and ready markets. I think that they have a real place and purpose as a supplement to more general credit controls and cannot now be used to enable dealers to maintain broad and ready markets.

2. Dealers are not now prevented from making broad and ready markets by an absolute shortage of funds. They can all borrow up to the prudent limits any lender would set in relation to capital. What they would like to have is assured access to funds at lower rates so that they would always, or nearly always, have a profit on the "carry" of their securities in position. No central bank can give such assurance without also giving up its initiative in credit control, and there is no warrant in law or in fact for such a relinquishment to enable dealers to make broader markets.

3. The risk of conflict with the initiative of the central bank and with general credit control admittedly depends in degree on just how the proposal was developed in practice: at one extreme, if it were to be an open window but always at a

penalty rate there would be little or no risk because there would be little or no use of the privilege. At the other extreme, if it were to be an open window at rates always favorable to making a profit on the "carry" it would make the market broader by floating it in a sea of Federal Reserve credit, no matter what general credit policy might be. In between these extremes, that is, with a variable rate used to promote or retard repurchase agreements at our initiative, you would only be substituting rate variation for present quantity (and rate) variation which we now use.

4. The analogy with member bank borrowing is, I think, misleading. The discount window is open as a privilege not a right, there are no credit lines to be drawn on at will, and the suggestion that member banks should borrow freely and continuously to enable them regularly to carry part of their assets has usually been frowned upon.

5. Broadly speaking, dealers now make broad markets and carry longer positions when they see prospects of rising prices, and narrow markets and small positions when they see prospects of falling prices. In general, there are only two kinds of situations when a dealer's borrowing needs exceed or seem to him to exceed the limit of funds available to him.

- (a) When he has become overextended in relation to his capital,
- (b) When the money market has tightened and individual banks are reluctant to borrow at the Federal Reserve Bank in order to advance additional funds to the dealer.

We certainly would not want to step in to relieve the first situation, and to relieve the second, whenever it represented an intended result of credit policy, would be partially to nullify that policy. When the tightening is temporary and not an intended result of credit policy, the present use of the repurchase agreement is effective and appropriate as a supplement to outright open market operations and the discount window.

6. If our markets were differently organized, the situation of the dealers might be improved. In the London market for example, short-term dealer portfolios can generally be carried at a profit, whereas here they must normally expect some loss on the "carry" of short-term securities and try to make it up on the spread between their bid and asked quotations and on fluctuations in prices when their guesses as to future price movements are correct. To reproduce the London situation even in part would mean that our money market banks ordinarily would

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have to lend to dealers on short-term securities at lower rates than are now available, that they would vary these rates from day to day in line with changes in their reserve position, and that the dealers would come to us only as a lender of last resort and at a penalty rate when there is temporarily a shortage of available funds in the market. They would then be able to average out their occasional losses, when borrowing at the penalty rate, with their usual profits and would presumably be encouraged to carry larger positions and to make broader markets. It would be desirable to study further whether and how such an institutional change in our markets might be brought about. Short of that, I do not see what Governor Robertson's proposal has to offer.

Mr. Bryan said that Mr. Sproul's statement made a closely reasoned and orderly argument but that he could not follow the statement orally, and he suggested that copies be distributed for further consideration.

Chairman Martin said that it would be understood that Mr. Sproul's statement would be made available to all members of the Committee in writing, and that further study would be given to the matter at a later meeting.

Before this meeting there had been sent to the members of the Committee a memorandum from Mr. Riefler dated June 20, 1955, giving a list of the persons to whom minutes and other records of the Federal Open Market Committee had been made available, as indicated by reports made to the Secretary pursuant to the authorization given at the meeting on March 2, 1955. A copy of this memorandum has been placed in the Committee's files.

Mr. Riefler stated that the memorandum was distributed because he felt it would be of interest to the members of the Committee and the other

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Federal Reserve Bank Presidents to know how extensively minutes and other Committee records were being made available under the authorization given last March, which provided that any member of the Committee or any other Reserve Bank President could make such records available to any employee of the Federal Reserve System in his judgment, provided he notified the Secretary of those to whom the records were made available. Mr. Riefler noted that in the reports some Federal Reserve Banks indicated by name secretaries and files personnel handling such records, while others did not so indicate. Mr. Riefler also called attention to the fact that at some Federal Reserve Banks minutes of open market meetings were made available to virtually no one outside the President's office, whereas at other Reserve Banks such minutes were available to several persons.

Prior to this meeting there had been sent to the members of the Committee alternative drafts of a letter to be sent by Chairman Martin to the Comptroller General of the United States with respect to the request made by the Chairman of the House Committee on Government Operations that the General Accounting Office make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Banks and their branches, and at this meeting a revised draft of letter was distributed.

At this point, the meeting recessed for fifteen minutes, reconvening at 11:46 a.m. with the same attendance as at the beginning of the recess.

After discussion, the letter to Mr. Campbell, as changed at this meeting, was approved in the following form:

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"This letter refers to our previous correspondence with respect to the request you received from Chairman Dawson of the House Committee on Government Operations that the General Accounting Office make an audit of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Banks and their branches for the period January 1, 1953 to December 31, 1954.

"In my letter to you of April 20, I stated that since the proposal represented an important departure from long established practice, with far-reaching implications, we would consult as promptly as possible with the Federal Open Market Committee, which is a statutory entity, and with the chairmen, and presidents of the Federal Reserve Banks. In the interim we have done so, and the Board has given further consideration to this request. In addition, I have had two meetings with Chairman Dawson regarding the matter.

"At the outset I think it should be clearly understood that the question before us is not whether the Board, the Federal Open Market Committee, and the Reserve Banks should be audited. They are audited in accordance with standard practices and exacting procedures, and reports of these audits are available to the appropriate Committees of Congress. For the past three years the Board has furnished the reports of the audits made of its accounts to the House and Senate Banking and Currency Committees. Last year the Board also sent the reports of examination covering the five years 1949-1953 of the twelve Federal Reserve Banks and branches, as well as the audit of the Federal open market account to the House Banking and Currency Committee where they could be examined by all members of the Congress who wished to see them. The Board stands ready at all times to make reports of audits of its own operations, as well as the reports of examination of the Reserve Banks and the audits of the Federal open market account, available to appropriate Committees of Congress.

"The matter of a separate audit by the Comptroller General presents a different question, and we believe that in the light of the statutes, legislative history, and explicit expressions of Congressional intent, the Board, in the absence of an express directive from the Congress, could not lawfully acquiesce in a separate audit made by your office.

"Chairman Dawson's request that you audit the Board, the Federal Open Market Committee, and the Reserve Banks is predicated upon section 53(b) of Title 31 of the United States Code, which was enacted as a part of the original Budget and Accounting Act, dated June 10, 1921. This Act provides in part that

the Comptroller General 'shall make such investigations and reports as shall be ordered by either House of Congress or by any committee of either House having jurisdiction over revenue, appropriations, or expenditures.' The context of section 53 seems to us to relate clearly to public funds appropriated by and expended in accordance with the directions of Congress.

"When the General Accounting Office was established in 1921, no exception was made with respect to the Federal Reserve Board. Accordingly, the accounts of the Board, but not those of the Reserve Banks and their branches, were audited for a number of years by the Comptroller General. However, in the Banking Act of 1933 Congress terminated the authority of the Comptroller General in this respect. That Act amended section 10 of the Federal Reserve Act to provide explicitly that funds of the Board, which are derived from assessments on the Federal Reserve Banks, 'shall not be construed to be Government funds or appropriated moneys.' It provided further that 'The Board shall determine and prescribe the manner in which its obligations shall be incurred and its disbursements and expenses allowed and paid...' The reports of the Senate and House Banking and Currency Committees on this amendment stated that its purpose was to leave 'to the Board the determination of its own internal management policies.'

"During the enactment of the Government Corporation Control Act, in 1945, Congress gave consideration as to whether or not the Federal Reserve Banks should be brought within the purview of that Act, so as to be audited by the General Accounting Office. Congress did not include the Federal Reserve Banks within that Act. At the hearings before the Senate Committee on Banking and Currency on the bill S.469, which became the Government Corporation Control Act, Mr. Frank H. Weitzel, attorney for the General Accounting Office, testified on behalf of the Comptroller General to the effect that Federal Reserve Banks should not be made subject to the bill for the reason that they were supervised very closely by the Board.

"As you know, there is a bill (H.R. 2643) pending in the present Congress which would provide for an audit by the Comptroller General of the Board, the Reserve Banks, and the Open Market Committee. A similar bill was considered but not reported by the House Committee on Government Operations in the last Congress. These measures were predicated, apparently, on the assumption that, if such an audit is to be undertaken, it should be authorized by an Act of Congress.

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"You may be assured of our desire to cooperate at all times with your office, as well as with the Committees of Congress, but in the light of the statutes and expressions of legislative intent we feel we must adhere to the conclusion stated above.

"I have assured Chairman Dawson that, if it meets with his approval, we would welcome an opportunity to appear before his Committee in order to present the important policy considerations which are raised by this proposal beyond the legal aspects of the matter dealt with in this letter."

Secretary's note: The letter was sent by Chairman Martin to Mr. Campbell, Comptroller General of the United States, under date of June 22, 1955, with a copy to Chairman Dawson, Chairman of the Committee on Government Operations of the House of Representatives.

Members of the staffs of the Board's Division of Research and Statistics and Division of International Finance entered the room at this point for the purpose of assisting in the presentation of an economic and credit review, illustrated by chart slides. A copy of the script of the review has been placed in the Committee's files, and copies were sent to all members following the meeting.

The review indicated that economic activity is continuing to rise from record levels, with expansion activated by private spending. Credit demands are very strong. Gross national product in the current quarter is now estimated at an annual rate of \$377 billion--up \$7 billion from the first quarter of this year and also \$7 billion above the second quarter of 1953. Industrial production in May reached a new high of 138--15 points

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above the 1954 low and 1 point above mid-1953. Some further increase appears to be occurring in June. A striking feature of the recent period has been stability in broad averages of commodity prices, despite sharp expansion in output.

While industrial capacity and manpower resources, on the whole, are being used fairly intensively and while some materials are in tight supply, the degree of utilization of the country's resources--with some exceptions--is not as intensive as in the spring of 1953. Since then, there have been two years of growth in the labor force, in productivity, and in capacity. In the spring of 1953, however, activity was leveling off, whereas this spring it has been advancing.

The review also presented projections of requirements for bank reserves which indicated that something over \$1-3/4 billion of additional Federal Reserve credit will be required during the rest of 1955 to cover reserve needs associated with usual seasonal changes plus a three per cent per annum growth in the money supply. To maintain excess reserves of around \$600 million, about \$700 million of reserves would be needed during the next two weeks to cover seasonal and holiday currency requirements as well as the usual end-of-month decline in float, but some of these could be covered by additional borrowing on the part of member banks, since "free reserves" are currently in excess of \$100 million. With the release of reserves by passage of July 4 holiday demands, there should be adequate reserves to cover the requirements of Treasury financing and most

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other demands until the last quarter of the year without further System operations, except for temporary periods such as around Labor Day. The remaining \$1 billion of reserves would be needed mostly during October and between Thanksgiving and Christmas.

The means by which the additional Federal Reserve credit is supplied in the next few months will influence the tone of credit markets and perhaps the nature of developments, the review said. The strong economic situation, the delicate balance of psychological forces in current financial markets, the obvious desirability of avoiding public misunderstanding of System policy at this time, and the timing factor of when the reserves are needed all seem to point to open market operations, rather than reserve requirement reduction. Some additional borrowing by member banks may be appropriate, depending on the strength and nature of credit demands. Vigorous demands for credit, particularly if of a speculative nature, may call for the restraint of increased member bank borrowing, and such restraint could be reenforced if necessary by a further rise in the discount rate.

The meeting then recessed for lunch and reconvened at 1:45 p.m. with the same attendance as at the beginning of the morning session except that Messrs. Hostetler, Rice, and Wheeler, were not present.

Chairman Martin referred to the economic review presented before lunch, stating that it was his belief that the economy was in the midst of prosperity. In making this comment, he said, he was not unaware that

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there was some unemployment and that in some segments of the community, such as in coal mining areas, there were technological shifts taking place affecting employment. He also noted that in the farm area there were problems which "marred" the general pattern somewhat. However, he felt that this was the most prosperous period the country had ever been in. Chairman Martin referred to the statement made by Mr. Sproul at a recent meeting of the executive committee at which he cautioned the Open Market Committee that credit policy was not solely responsible for the level of business activity. The Chairman stated that he felt this was an excellent point to bear in mind. However, he felt that the psychology of prosperity had now been built up to a point where there was a very real element of danger that monetary and credit policy might produce a situation of undue optimism. Chairman Martin said that it would be desirable today to review discount rate policy, money supply policy, and reserve requirement problems, all in the light of the forthcoming Treasury financing. He referred to the projections of reserve funds prepared by the staff, indicating what the need for additional reserves would be in coming weeks, and he also noted that as far as operations for the System account were concerned there recently had been a tendency (through no fault of anyone) for the volume of free reserves to be reflected on the "easy" side of the zero-to-\$100 million range plus or minus, rather than on the down-side of that range. If ever there had been a period when it would have been desirable to have

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had free reserves ranging lower than the projections, this would have been the time, Chairman Martin said. The Committee was now faced with a period in which it would have to supply reserves to meet seasonal requirements, to meet growth in the economy, and to assist in the Treasury's financing. He likened the present situation to one in which a driver of an automobile was going up a hill and as the grade increased found it necessary to increase pressure on the accelerator: it was a question how much more reserves should be supplied in order to maintain the existing situation. Chairman Martin then called upon Mr. Sproul who made a statement substantially as follows:

1. As shown in the reports this morning and as we have all observed, I think, there is continued growing strength in the economic situation at high levels of production and employment. This warrants a feeling of satisfaction, tempered by the fact that activity has been supported by rapid expansion in consumer and mortgage credit on easy terms, and by the likelihood that prices, after two years of stability, may now break out on the up-side, due to pressure from costs and anticipation of price rises by businessmen and consumers.

2. With continued strength in the economy at the highest levels yet reached, some evidence has developed of a nearer approach to full utilization of existing plant, equipment, and manpower than in the recent past, but there still appears to be some leeway for increased production and increased productivity, in a highly competitive economy, to counteract these cost-price influences in part. Restraint from the credit side can be helpful but not controlling in such a situation. The pressure of existing credit restraint will increase as demand for credit increases in coming months, and we shall have to be alert from here on to the need for further restraint; to signs of price and credit inflation. Such signs would include rapid growth of credit to finance inventories, indications of speculative buying in anticipation of price increases, further rapid growth of consumer credit, another speculative surge in the stock market, and in general the development of super boom psychology.

3. Even if the rate of growth in the economy should be less in the third quarter of 1955 than in past two or three quarters, the great breadth of the present upward movement, including nondurable and durable goods, suggests that whatever slackening in automobile production and whatever leveling off of housing activity may take place during next three months will be largely offset by a continued push upward in other areas. The recent upward revision of prospective business expenditures for capital equipment, the continued high level State and local expenditures, and the continued evidence of economic strength in many foreign countries, and the general air of optimism, reinforce this view.

4. The Treasury picture is largely unchanged. It will have to issue around 9 or 10 billion of new securities during last half of the calendar year, though not all of this is net borrowing. Some 2 or 3 billion will be in replacement of redeemed savings notes, attrition on maturing issues, and to redeem CCC certificates and maturing issue loans. Treasury borrowing, most of which will presumably be at short term and much of which will have to be done through the banks, will require the addition of reserve funds to the bank pool. It carries possible inflationary elements which will have to be guarded against.

5. Private demands for bank credit during the remainder of the year are also expected to be substantial, after a contraseasonal rise during the first half of the year. Seasonal needs and some growth needs will require additional reserve credit, particularly as many banks would appear to have approached or reached the limit of possible shifts of short-term securities to nonbank investors, in order to make way for increased loans. The total amount of reserves needed to maintain existing credit conditions, without relaxation of present restraint, is estimated to be in the neighborhood of 2 billion.

6. It now appears that these combined reserve needs growing out of private demands and Treasury borrowing can be met by open market operations supplemented by an increase in discounting at the Federal Reserve Banks. Most of the increase in member bank borrowing this year has been at country and reserve city banks; there is still room for further borrowing and for this kind of pressure to be felt more largely at the central reserve city banks. This would afford a measure of insurance against a too free dispensation of reserves through open market operations.

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7. Our primary task is to provide the reserves needed by a prosperous growing private economy, and our secondary task is to provide the reserves needed to facilitate unavoidable Treasury financing so that it will neither absorb funds needed by the private economy nor be the vehicle for an excessive credit expansion. This will mean treading a pretty narrow path between too little and too much. Open market operations are convenient for the main part of the task, but the finer adjustments both in terms of reserves provided and in terms of keeping the right amount of pressure on the reins can come from seasonal use of the borrowing privilege. An increase in member bank borrowing, in the aggregate, should be welcomed, as seasonal needs develop. We should be ready to meet reasonable demands at the discount window. We should also be ready to increase the discount rate when the business and credit situation suggest it and the Treasury's financing schedule permits it. Continued pressure on the banks and an enlarged supply of short-term Government securities should result in a rising trend of short-term interest rates, which could set the stage for another increase in the discount rate either after the Treasury's July-August cash financing or before its October cash financing.

Chairman Martin inquired of Mr. Sproul as to his views regarding Mr. Rouse's comment at the beginning of this meeting concerning gossip in some parts of the money market to the effect that the discount window at the Reserve Bank was "closed a la 1953".

Mr. Sproul stated that it was difficult to understand this feeling, since whenever the question had been brought up the response of all Federal Reserve Banks was that no practices were being followed that would lead to gossip of the sort indicated. Mr. Sproul said that he had no reason to doubt that the feeling did exist, however, and that in some way the impression had gotten around that the Federal Reserve was not going to welcome borrowers at the discount window this year.

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Chairman Martin said that this was an important point to bear in mind. He did not believe that the System could dissipate the gossip by a statement; it would have to do it by the actions taken at the discount window.

Mr. C. S. Young stated that in Chicago he had observed the same feeling as that indicated by Mr. Rouse, and Mr. Erickson made a similar comment with respect to the Boston District.

Mr. Johns said that in the Eighth District he thought there was no misunderstanding with banks about administration of discount policy when discussions were on the basis of a specific situation. However, when discussions were in general terms, there had been an impression, perhaps growing out of the recent revision of Regulation A, of doubt as to whether discount policy had changed.

Mr. Bryan expressed the view that, in part, member banks wished to misunderstand discount policy. He had had occasion, he said, to talk with several banks in the Atlanta District recently about their situations and, despite the care used in discussing the matter with them, some had chosen to interpret the situation as meaning that the Federal Reserve did not wish to take care of member banks at the discount window this year.

Mr. Robertson commented that he thought it would be possible to overemphasize the feeling reported to exist and that the System might well find that actions taken to correct the feeling might result in promoting the idea that the discount window was "wide open."

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Chairman Martin said that Mr. Robertson had made a good point and that, as indicated before, he felt the best procedure was for each Reserve Bank President to use his judgment in trying to clarify discount policy as the occasion arose, and not to make any concerted drive in this direction.

Turning to operations for the System Open Market Account, Chairman Martin inquired of Mr. Sproul whether his view was that the Committee should continue to try to maintain free reserves ranging from zero to \$100 million, plus or minus.

Mr. Sproul responded that his thought was that the Committee should maintain its existing policy, but that he had not understood that policy as having been refined down to a \$100 million range of free reserves either side of zero. Rather, he had thought that departures from zero free reserves range might be wider than that in either direction, so long as such departures were temporary and did not create an impression of a change in existing credit policy. Mr. Sproul thought that, in addition, the Committee would now have to pay more attention to member bank borrowing and more attention to movements in market rates, rather than looking primarily to free reserves as a single guide.

Mr. Leach said that he thought there should be no change in existing policy but that it would be satisfactory to him if there was a little more tightness than had existed in recent weeks. He felt that the objectives

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discussed at the June 6 meeting of the executive committee were right but that the degree of tightness that had existed had not quite conformed to those objectives. Mr. Leach said that free reserves should not be the sole guide and he would rather achieve the result with a little more tightness than had been apparent recently.

Mr. Earhart and Mr. Sproul both concurred in Mr. Leach's statement.

Chairman Martin stated that one of the questions was whether to supply reserves during the period of the forthcoming Treasury financing freely or reluctantly. He felt that the Committee should not mislead the Treasury into thinking that it was going to pour reserves in to support the Treasury financing. On the other hand, he would not indicate that the Committee would be reluctant to supply the reserves needed, but that they should be supplied on the basis of current needs. He felt this could not be measured by the words "tightness" or "ease" and he realized how difficult it was to maintain a market situation in line with the Committee's objectives when there was such a small supply of Treasury bills in the market.

Mr. Mills said that he was thoroughly sympathetic at the present time with the point of view of increasing restraint but that such an increase in restraint would be difficult to attain at the time of the Treasury's forthcoming financing. There should be some minimum amount of free reserves in the market at the time of the Treasury financing, he said, to

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serve as a lubricant which would facilitate the operations of dealers in meeting their own requirements and to assist others during the Treasury financing. Unless there was such a volume of free reserves, Mr. Mills felt there would be a distinct possibility of another refunding with heavy attrition, and the impression might be created that the Federal Reserve was so intent on its own policy that it was indifferent to the needs of the Treasury. This would be more likely to occur if the open market meetings were to be set three weeks apart commencing with this meeting. If the market could have some lead from the Federal Reserve as to the minimum amount of reserves that would be in the market, it might serve the System's purposes as well as the needs of the Treasury more effectively.

Mr. Rouse said that there had been a statistical appearance of greater ease than actually existed in the market. Both in New York City and outside, reports indicated that individual banks felt their situation was tighter recently than it had been earlier. Mr. Rouse felt that within the next three weeks market needs for reserves would be in the magnitude of one-half billion to \$700 million, and the bulk of the buying of bills to meet that need would have to be done prior to the probable announcement of the Treasury financing during the week of July 4. Buying by the Federal Reserve in advance of the announcement would be reassuring to the market, Mr. Rouse said, even though the volume of free reserves did not make for a "flush" situation: the mere addition of such reserves would be taken as an indication that the System was going to "see the Treasury through".

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Chairman Martin said this was very encouraging. He felt that both the statistics and psychology of the situation needed to be considered.

In response to a question from Mr. Leach, Mr. Rouse expressed the view that bills or other short-term securities would be available to enable the System account to buy what was needed during the next three weeks, and he did not think such purchases would have an undue influence in decreasing interest rates during that period.

In response to a request of Mr. Robertson, Mr. Thomas stated that there were arguments both for and against a reduction in reserve requirements as a way to meet the need for additional reserves during the period of the Treasury financing. Such a reduction would have a psychological effect. It would place in many banks free reserves which they would not use in connection with the Treasury financing and thus those banks would be free to use the reserves in making loans of a less desirable and more speculative character. Mr. Thomas also felt a reduction in reserve requirements would be interpreted as a step toward ease and for the purpose of facilitating the Treasury financing, regardless of what the Committee's current general policy might be. If the reserves were provided through open market operations, presumably they would not be furnished until the pressures were reflected in the market. Further, by providing the reserves through open market operations, a smaller volume might be furnished, depending upon how the situation developed.

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Chairman Martin said that since the meeting of the executive committee early in June, he had given a great deal of consideration to the ways in which reserves might be provided. He felt there was no way of making a reduction in reserve requirements so that it would not be misinterpreted: such a reduction would compound the talk of ease. Banks had been advocating a reduction in reserve requirements for some time and there had come to be a tendency to expect such a reduction. Chairman Martin went on to say that following the executive committee meeting on June 6 he, Mr. Sproul, and Mr. Balderston talked with Treasury officials about the matter of providing the reserves that would be needed this summer.

Mr. Balderston said that he felt a reduction in reserve requirements would put funds into the market in the wrong place, in the wrong way, and at the wrong time. It would be completely misunderstood. It would add to the System's difficulties in trying to maintain a degree of "restraint" and still put reserves into the market to meet the various needs that would arise this summer and fall.

Mr. Robertson said that he felt the Committee should be more restrictive than it had been. He would be much happier if it could maintain a greater degree of restraint than had been maintained recently, without jeopardizing the Treasury financing program.

Chairman Martin said that there appeared to be agreement that the existing policy should be continued, and the question was one of how to

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implement that policy. He then called upon Mr. Rouse for suggestions regarding the instructions to be issued to the New York Bank, and Mr. Rouse indicated that the limitation in the first paragraph of the directive be set at \$1 billion rather than the existing \$750 million, in view of the purchases that would be necessary during the next three weeks. It was also noted that the directive to be issued to the New York Bank by the full Committee would be in the form presented by Mr. Vest earlier in this meeting in connection with the discussion of the abolishment of the executive committee. A copy of the revised form of directive was distributed at this point.

Chairman Martin suggested that, in issuing the foregoing instruction, all members of the Committee bear in mind Mr. Mills' point that Committee members keep in touch with the situation and be available in the event it was necessary to communicate with them regarding developments during the next three weeks.

Mr. Mills inquired whether the understanding that operations would be confined to short-term securities, preferably bills, continued in effect, and Chairman Martin stated that this was correct.

Mr. Robertson suggested that the directive to be issued by the full Committee to the New York Bank provide that the Federal Reserve Bank of New York shall not enter into repurchase agreements at a rate below the discount rate of the Federal Reserve Bank of New York.

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This proposal was discussed briefly and, at Chairman Martin's suggestion, it was agreed that it should be held over for consideration at the next meeting of the Committee.

Mr. Balderston inquired whether the directive would give authority to the Manager of the System Account to take into account the rate of speed at which the economy was moving in providing reserves during the next few weeks. His view was that the public should understand that the present high level of business justified a higher discount rate than now existed and that if the Treasury financing were not to take place in the immediate future, it would be appropriate to increase the discount rate to 2 per cent at once. However, the System had to take into account the Treasury financing problem.

Mr. Bryan said this was closely allied to the problem that was bothering him regarding the apparent consensus of the Committee. He felt that the situation needed some restraint. He felt the discount rate had not been made effective as a restrictive device because the System had permitted the going rate in the short-term market to be at times substantially below the discount rate and never quite up to it. He wondered, therefore, if it would be appropriate to begin feeding reserves to the market before the short-term rate had gotten up to the discount rate.

Chairman Martin commented that the short-term rate was a product of circumstances largely beyond the System's control at the present time, in view of the short supply of Treasury bills in the market.

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Mr. Sproul said that he did not think the Committee should look upon the provision of reserves during the next few weeks as "pouring gasoline on the fire". They were to maintain the existing measure of restraint as nearly as possible in view of prospective over-all needs. If the situation continued to need restraint, as now seemed likely, an increase in the discount rate could again be considered when the Treasury financing was out of the way. With respect to Mr. Bryan's comment about not putting reserves into the market until the short-term rate had moved up, Mr. Sproul felt that in the light of the Treasury financing and the attitude existing in the market, it would not be wise to try so precisely and with such a high degree of refinement to say when the System account should begin to put in reserves. If the full Committee were to attempt to do this, it would run a real risk of causing a misunderstanding of System policy and of having the Treasury financing turn out to be a failure, with the result that the whole policy the Committee was pursuing might be lost. It might well be consistent with policy to have the short-term rate go up, but Mr. Sproul said that as he saw it that did not mean that the rate should go up within the next two weeks; it could be expected to go up with the increased seasonal demands, with the growth demands, and with the other factors that may be anticipated during the period immediately ahead.

In response to a question from Mr. Robertson as to whether this was the time to consider an increase in the discount rate, Mr. Thomas

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said that this raised the question of rate relationships. It was a question of a reasonable relationship between the rate at which the System would buy bills, the rate at which it would make repurchase agreements on bills, and the discount rate. The discount rate is a penalty rate and the general approach was that banks should try to make their adjustments in reserve position through the bill market before borrowing at the Reserve Bank as a general rule. Also, if a policy of not making repurchase agreements below the discount rate were to be adopted one might raise the question in terms of rate relationships why the System would purchase any bills below the discount rate.

Mr. Bryan said that he was not suggesting a precise relationship between rates but that he questioned whether the System, on its own initiative, should make massive additions to reserves in advance of a rise in the short-term rate. He felt that it would be desirable if the System account were a little reluctant about large infusions of reserves at this time.

Mr. Thomas stated that the projections indicated it would be necessary for the System account to purchase at least a half billion dollars within the next ten days to cover usual seasonal needs and the restoration of the Treasury balance at the Reserve Banks to a more normal level.

After further brief discussion, Chairman Martin inquired whether there was objection to approval of the directive to be issued by the full Committee to the New York Bank in the form presented by Mr. Vest earlier

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in the meeting with a limit of \$1 billion for the first paragraph.

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 fostering growth and stability in the economy by maintaining conditions in the money market that would avoid the development of unsustainable expansion, 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 \$1,000,000,000;

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.

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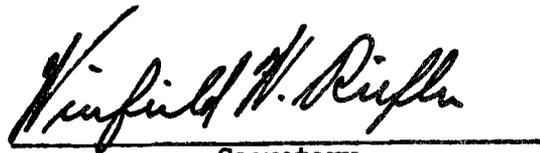
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Chairman Martin stated that with the abolishment of the executive committee he had in mind that meetings of the full Committee hereafter would be scheduled at intervals of three weeks. He suggested that the next meeting be set for 10:45 a.m. on July 12, 1955, and that it tentatively be understood that meetings also would be held on Tuesdays, August 2, August 23, and September 13, 1955.

Mr. Leach suggested that the practice which had been followed in connection with meetings of the executive committee in the past of distributing to the members of the Committee a staff report on the economic and credit situation be continued for meetings of the full Committee in the future. He felt the report was of more value if it could be received in advance of the meeting so that the Reserve Bank Presidents had an opportunity to review the report of the Board's staff and compare it with information available in the individual districts before the meeting.

Chairman Martin stated that this procedure would be continued in the future.

Thereupon the meeting adjourned.


Secretary