The following directive from the Federal Open Market Committee to the Federal Reserve Bank of New York was approved:

1. Authority to Effect Transactions in System Account.

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 billion.

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;

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.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Earhart, Fulton, Irons, Leach, Mills, Robertson, Shepardson, and Vardaman. Votes against this action: none.

This directive was issued by the Committee to the Federal Reserve Bank of New York as the Bank selected by the Committee to execute transactions for the System open market account because earlier during this meeting the executive committee of the Federal Open Market Committee, to which the full Committee formerly issued its directives, was abolished.

In connection with the issuance of the directive running from the Committee to the Agent Bank, there was eliminated one of the provisions that the full Committee previously had included in its instruction to the executive committee, namely, that in arranging for transactions for the System account the executive committee should do so with a view, among other things, "to correcting a disorderly situation in the Government securities market." That provision had been included in the directive to the executive committee since March of 1953 with the understanding that intervention to correct a disorderly situation in the Government securities market would be initiated.

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only upon the affirmative vote of a majority 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 System Open Market Account or otherwise. Since an authorization for intervention in the future would require the affirmative vote of a majority of the Federal Open Market Committee, no similar provision was included in this directive to the Agent Bank.

No change of substance was made in the directive at this meeting in so far as it stated the policy of the Federal Open Market Committee with respect to current credit needs of the economy, and the clause which from time to time had been modified to reflect changes in policy or emphasis by the full Committee remained the same as that included in the directive issued at the meeting on May 10, 1955, that is, that operations for the System account should be with a view "to fostering growth and stability in the economy by maintaining conditions in the money market that would avoid the development of unsustainable expansion."

In its review of the economic situation at this meeting, the Committee noted that activity was continuing to rise to new record levels, with expansion activated by private spending. Industrial production in May had reached a new high and some further increase appeared to be occurring in June. Broad averages of commodity prices had been stable despite sharp expansion in output. Industrial capacity and manpower resources were being used fairly intensively and some materials were in tight supply. Use of the country's resources was not so intensive as in the spring of 1953, however, partly because the labor force, productivity, and capacity had grown since then. Some unemployment still existed and conditions in agriculture and coal mining were not satisfactory, but the general level of economic activity and prosperity was high. This feeling of satisfaction with over-all economic progress was tempered by the fact that the high levels of productivity and employment had been supported by rapid expansion in consumer and mortgage credit on easy terms, and by the likelihood that prices, after two years of stability, might break out on the up-side because of pressure from costs and anticipation of price rises by businessmen and consumers. There appeared to be little leeway for further increases in production, and it was doubtful that productivity could be increased rapidly enough to counteract cost-price influences.

While the Committee recognized that monetary policy was only one of the factors influencing the level of demand for goods and services, it felt that restraint from the credit side could be helpful at this time in preventing unsound developments. On the other hand, it noted that a period was approaching when, in addition to supplying funds for growth in the economy, substantial amounts of reserves would be required to meet normal seasonal needs. The Committee also took cognizance of Treasury financing require-

ments during the third quarter of the year which would add to the demand for reserves at least temporarily because of necessary bank participation in the initial absorption of the new issues. After considering all factors, the Committee concluded that for the immediate future it should not alter the course it had been following recently which had had a restraining influence on credit expansion, that reserves should be supplied to the market on the basis of current needs, and that operations for the System account should be directed toward maintaining about the existing degree of pressure on the reserve position of banks.

The directive included a paragraph authorizing the sale to the Treasury from the System account, against payment in gold certificates, of Treasury securities maturing within one year in an amount not to exceed $500 million. The purpose of this authorization, as had been the case when a similar transaction was consummated in November 1953, was to enable the System account to make it possible for the Treasury to use some of its gold in repaying some Federal Reserve-held debt without affecting the reserve position of member banks, should the Treasury find it necessary to do so in order to avoid exceeding the statutory debt limit. A similar continuing authorization previously had been given by the executive committee to the Federal Reserve Bank of New York but, with the abolishment of the executive committee at this meeting, the Committee concluded that it would be desirable to include this authorization within its directive to the New York Bank.