

FORTY-SECOND

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1955

This meeting was for the purpose of discussing the potential economic effects of the President's illness over the preceding week-end and what, if any, change should be made at this time in credit policy. The Committee concluded that since there had been no change in the fundamental economic situation it should aim at maintaining about the same degree of credit pressure that had existed, with the understanding, however, that doubts need not be resolved on the side of greater restraint. This change was made for the purpose of providing flexibility in order to counter adverse psychological developments that might appear.

October 4, 1955

1. Authority to Effect Transactions in System Account.

The Committee again renewed without change the directive to the Federal Reserve Bank of New York in the form approved at meetings held on August 2, August 23, and September 14, 1955, including the instruction that transactions for the System account be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth." In addition, the Committee restored the understanding that had been reached at the meeting on September 14, 1955, and which was suspended at the special meeting on September 26, 1955, that in carrying out open market operations, doubts should be resolved on the side of greater restraint rather than of ease.

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

At the time of this meeting the economic situation had advanced to a point where financial developments had become a more critical factor in the shaping of business trends. Consumer credit had been rising rapidly to new heights and so also had mortgage credit, supporting very active markets for automobiles and housing. It was at this stage of economic developments that announcement of the President's illness on September 24 had come as a shock to confidence and, while it was too early at the time of this meeting to assess the economic significance of that announcement, the immediate response had been a sharp setback in stock prices accompanied by a sharp rise in trading. It was suggested that there was at least the possibility of some postponement in business and consumer spending. Despite the psychological shock to the business community, the current and prospective momentum of economic activity was such that the Committee concluded the situation called for continuing the present policy of restraint without allowing the restraint to become so severe as to accentuate any tendency toward a downturn in the economy that might develop. While

there were various shades of opinion as to the effect of the President's illness on the economy, the apparent leveling off at a high level of production still seemed to be accompanied by increasing upward pressure on prices. The Committee approved the same general instruction with respect to open market operations that had been adopted at the meeting on September 14—restraint on credit expansion, with the understanding that doubts should be resolved on the side of increased restraint.

October 25, 1955

1. Authority to Effect Transactions in System Account.

The Committee renewed at this meeting the directive to the Federal Reserve Bank of New York that had been approved at the meeting of the Committee on August 2, 1955 and at each meeting since and which included the specific instruction that, among other things, operations for the System account be with a view "to restraining inflationary developments in the interest of sustainable economic growth." In addition, it was understood that while the Committee wished to maintain a restraining influence on the credit situation, it did not wish to increase pressure drastically.

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

The economic situation was still one of advance but with the pace of advance, in terms of physical output, necessarily slowing down as capacity operations were reached in basic industries. Most economic indicators were showing moderate fluctuations at advanced levels. Industrial prices had risen 3 per cent since midyear and consumer prices had risen slightly in September. Mortgage credit had become tight and was getting tighter, and residential building was falling off somewhat more than seasonally; but business and industrial construction was rising. It was still difficult to judge the economic effect of the President's illness, the Committee felt, and how that factor might have altered plans of businessmen and consumers. Inflationary pressures did not seem to be carrying through to speculative excesses in the accumulation of inventories or in rapidly spiraling prices. With the over-all business and credit outlook remaining exceedingly strong, however, it was not evident that the present policy of restraint had been too restrictive, and the Committee's judgment was that the situation did not call for action to ease credit policy. Monetary policy could not be expected to correct the disparity between industrial and agricultural prices, nor could general policy be expected to correct the imperfections that had been evident in the mortgage credit and consumer credit fields without causing difficulty in other