FORTY-SECOND
ANNUAL REPORT
of the
BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
COVERING OPERATIONS FOR
THE YEAR
1955
November 16, 1955

1. Authority to Effect Transactions in System Account.

The Committee approved another renewal of its directive to the Federal Reserve Bank of New York in the form that had been approved at several recent meetings providing that transactions for the System open market account be conducted with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth."

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

Analysis of the situation at the time of this meeting in mid-November showed that businessmen and consumers had thrown off doubts about economic prospects that had been created by the President's illness. Consumer spending and borrowing continued extremely high. Plans for business spending for plant and equipment during 1956 were being announced in substantially higher volumes than for 1955. Production was approaching or had reached capacity levels in more and more industries, and the labor market was showing further tightening. Markets for industrial commodities were very strong, manufacturers' unfilled orders were continuing to rise, and industrial price rises were spreading.

These factors suggested the need for additional restraint but, at the same time, the Committee noted that normal seasonal developments would require additional reserves to assist banks in supplying essential credit needs between mid-November and the year-end. The Committee was also aware that the Treasury would be in the market to refund $12 billion of maturing securities toward the end of November of early in December and that it probably would have to borrow around a billion dollars of new money by the middle of December. In addition, the Committee noted that consideration was currently being given to a further increase to 2 1/2 per cent in the discount rates of the Federal Reserve Banks, which had been increased to 2 1/4 per cent in August and September. In considering these several factors, the Committee agreed that, while the Federal Reserve should operate to restrain

November 30, 1955

1. Authority to Effect Transactions in System Account.

The Federal Open Market Committee authorized the Federal Reserve Bank of New York to purchase for the System open market account in the open market, on a when-issued basis, up to $400 million of 2 1/2 per cent Treasury certificates of indebtedness to be dated December 1, 1955, maturing December 1, 1956.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Earhart, Fulton, Irons, Leach, Shepardson, and Szymczak. Votes against this action: Messrs. Mills, Robertson, and Vardaman.

This meeting, which was held through telephone conference arrangement, was called for the purpose of considering what, if any, action the Committee should take in view of developments in the market which suggested that the current Treasury offering of approximately $12 billion of refunding securities might be subject to unusually large requests for cash redemption. The Treasury offering had been announced on November 28, and books were open on Monday, Tuesday, and Wednesday, November 28, 29, and 30, 1955. The response to the announcement of the terms of the offering indicated that the market regarded the new issue as being properly priced. Shortly after the opening of the books, however, it became apparent that a large proportion of holders of the maturing issue had earmarked the proceeds of this maturity for other uses. This indicated that the volume of cash redemptions would be considerably larger than had been generally anticipated. Moreover, unexpectedly stringent money market conditions had developed during the latter part of November. Apparently this was in part a delayed response to an increase in mid-November to 2 1/2 per cent in the discount rates of all Federal Reserve Banks.

In considering this situation, the Committee noted that on the basis of earlier projections of reserve needs to meet seasonal and other demands, it would probably find it necessary in any event to put into the market upwards of $400 million of reserves within the next week. Further, addi...