FORTY-SECOND

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1955
December 13, 1955

1. Authority to Effect Transactions in System Account.

The Committee renewed its directive to the Federal Reserve Bank of New York in the form in which it had been approved in August and since, calling for transactions in the System open market account 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, and Szymczak. Votes against this action: none.

Economic activity in the countries of the free world generally had been at a high level and rising throughout 1955. Monetary and fiscal authorities everywhere had been faced with the problem of checking actual or potential inflationary developments. In recent months, pressures on labor and other resources had been spreading gradually, but measures of restraint had helped to limit price advances.

The rise in output within the United States recently had been less rapid than in the latter part of 1954 and the first half of 1955, reflecting in part capacity limitations in key industries and in part a leveling off in demand for new automobiles and houses. Because of seasonal influences, the number of unemployed had risen somewhat in November. Business was indicating plans for further expansion in plant and equipment during 1956, and a general feeling of optimism regarding the outlook prevailed.

It was in the light of this sustained high level of economic activity and of the generally favorable outlook that the Committee reviewed the policy of credit and monetary restraint that had been pursued during the fall months of the year. A sharp increase in pressure on the reserve position of banks had taken place during the four weeks ending November 23, but this had been followed by some easing after the System injected a substantial volume of reserve funds into the market during the last week of November and the first week of December, when market conditions were affected by a combination of seasonal reserve pressures, the increase in Reserve Bank discount rates in mid-November, and the Treasury's refunding and cash financing operations. With the passage of that difficult period, it seemed desirable to attempt to regain as far as possible the level of pressure that had existed around November 23, just prior to the announcement of the Treasury's refunding. The Committee recognized, however, that it might not be possible—or even desirable—to reestablish all of the pressure that had existed in November, partly because of the year-end needs that were developing. After considering these factors, it concluded that the general policy of restraint followed in recent months should be reaffirmed with a view to regaining, without causing sudden market disturbances, as much as possible of the level of pressure that had existed shortly before the announcement of the Treasury refunding operation near the end of November.