## Digest of Principal Federal Reserve Policy Actions, 1956

| Period | Action | Purpose of action |
|---|---|---|
| January | Reduced System holdings of U. S. Government securities by over $1.4 billion through sales in the market, redemption of maturing bills, and termination of repurchase agreements. Member bank borrowings increased to weekly averages of $900 million in late January. | To offset seasonal return flow of currency and reduction in reserve needs and restore degree of restraint prevailing before December action to moderate restraint temporarily. |
| February and March | Bought small amounts of Government securities at times. Member bank borrowings declined somewhat in February but increased substantially in March as result of sharp increase in required reserves. | To meet changing reserve needs and avoid an increasing degree of credit restraint in view of growing tone of uncertainty as to economic prospects. |
| April and May | Discount rates raised from 2½ per cent to 2¾ per cent at 10 Reserve Banks and to 3 per cent at 2 Banks around middle of April; System holdings of U. S. Government securities reduced by $350 million. Member bank borrowings at Reserve Banks rose to over $1 billion. | To increase restraint on credit expansion, in view of sharp increase in bank credit in March and indications of broad increase in spending, growing demands for credit, and upward pressures on prices and costs. |
| Late May–early August | Increased System holdings of U. S. Government securities around end of May and end of June and maintained holdings at higher level than in previous period. | To meet currency needs around holidays, to cover added demands for reserves around tax payment and midyear settlement periods, and to avoid increasing the degree of restraint in view of uncertainties in economic situation. |
| August–November | Discount rates raised late in August to 3 per cent at the 10 Reserve Banks with rates of 2¾ per cent. System holdings of U. S. Government securities increased by nearly $1 billion; member bank borrowings at Reserve Banks rose to average of $900 million in August and averaged between $700 and $800 million in other months. | Discount rates increased in conformity with rise in market rates resulting from vigorous credit demands. Policies designed to increase and maintain restraint on undue credit expansion while covering seasonal and other temporary variations in reserve needs, including effects of frequent Treasury financing operations. |
| December | System holdings of U. S. Government securities and bankers' acceptances increased by over $550 million, including substantial repurchase agreements with dealers. Member bank borrowings declined to weekly averages of around $600 million, except in last week of year, and at times were less than excess reserves. | To supply reserve funds in recognition of additional pressures in money, credit, and capital markets resulting from seasonal factors and international conditions, at a time when lower liquidity ratios of banks were themselves exerting restraint on bank lending. |



## RECORD OF POLICY ACTIONS

## FEDERAL OPEN MARKET COMMITTEE

At the beginning of the year 1956, the policy directive of the Federal Open Market Committee, issued to the Federal Reserve Bank of New York as Agent selected by the Committee to execute transactions for the System open market account, was the one that had been approved at the meeting on December 13, 1955, reading as follows:

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 restraining inflationary developments in the interest of sustainable economic growth, 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.

The policy actions listed on the following pages were taken by the votes indicated at the nineteen meetings of the Federal Open Market Committee held during 1956.

January 10, 1956

**Authority to effect transactions in System account.**

The Federal Open Market Committee renewed without change the directive that was in effect at the beginning of 1956, set forth above, which called for a policy of restraint on credit expansion.

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

This action continued the policy of restraint on credit expansion in the same terms that had been used in each directive issued by the Committee since August 1955; that is, transactions in the System open market account were to be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth." During the first four months of 1955, the directive had been in terms of "fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion;" and from May to August of 1955, the directive had likewise been in terms of fostering growth and stability, although the instruction to "encourage recovery" had been deleted in May. Restraints on credit expansion had been exercised by making it necessary for member banks to borrow to obtain additional reserves needed and by raising discount rates, and these restraints had become increasingly restrictive as banks reduced their liquidity in order to expand loans.

In reviewing the domestic situation at the beginning of 1956, the Committee found that economic activity was still advancing with industrial output and industrial prices penetrating new high ground, and with many industries operating near existing capacities. Aggregate domestic demands were continuing to expand and pressing upward on prices. Data for other industrial countries similarly showed further advances in activity with manpower and productive facilities being utilized intensively and with prices tending to advance. At the same time, the Committee noted signs of slowing in the rate of expansion in key domestic areas such as automobile production and residential building, and it also took note of an apparent leveling off in consumer demand and of views expressed by



some observers that a downturn in activity might occur during 1956. These factors were weighed against the indications that plant and equipment expenditures by business would establish new records during the year and that, if credit were too readily available at this stage, there could be an upward spiraling of prices based on increasing costs and shortages of some materials. The Committee reached the conclusion that the over-all situation was still inflationary in character, at least on the industrial side, and that a continuation of restraint on credit expansion was required. Until the economic outlook and the demand for credit had become clearer, however, and in view of the increased severity of restraints on banks, the Committee did not feel that the general level of restraint should be increased beyond that which had existed in the autumn of 1955.

In considering the implementation of this general policy of restraint, the Committee observed that the usual year-end strains in the money market had been moderated by certain unusual factors as well as by System operations that had permitted some easing of member bank reserve positions in the last two weeks of 1955. The Committee believed it desirable to absorb some of the reserves that had been supplied at that period and thus to move toward recapturing the degree of restraint that had existed in November and early December.

January 24, 1956

**Authority to effect transactions in System account.**

The Committee modified its directive to the Federal Reserve Bank of New York at this meeting by adding to clause (b) an instruction that transactions for the System account, in addition "to restraining inflationary developments in the interest of sustainable economic growth," should take "into account any deflationary tendencies in the economy."

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.

The decision at this meeting to continue the directive calling basically for restraint on inflationary developments was made in the light of the evidences that the current year had begun with activity and employment sharply above a year ago and, in many countries, close to capacity. It was recognized that further increases in over-all output in the United States could be achieved only slowly and that in such circumstances relatively small increases in demand might bring heavy upward pressure on prices. At the same time the Committee noted the currently reduced levels of farm prices and uncertainties in the housing and automobile markets; and it gave consideration to the view that the domestic economy after a year and a half of expansion might be nearing a cyclical peak and that a reaction might be in prospect before long. It observed likewise that some seasonal contraction in the volume of credit was then taking place and, although a rise during February and March might be anticipated, some of the rise would be to meet seasonal needs.

The net of the Committee's review was that there had been a slight—perhaps almost imperceptible—change in the state of the economy in recent weeks, which might make some relaxation of restraint appropriate in the near future. It concluded that the situation at the moment did not call for a policy directive which gave sole emphasis to restraining inflationary forces. This did not mean that a reversal of the existing policy was called for, but a shift in emphasis seemed desirable as a means of indicating the intent to make credit available to permit the economy to work, to produce, and to consume at near-capacity levels. Thus, for the purpose of emphasizing flexibility, the Committee added the instruction to take into account any deflationary tendencies in the economy while carrying out operations directed toward restraining inflationary developments.

February 15, 1956

**Authority to effect transactions in System account.**

The Committee renewed its directive to the Federal Reserve Bank of New York with no change in the wording approved at the meeting on January 24, 1956.

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



In its review of the economic situation at this time the Committee observed some continued diversity in tendencies with necessary realignment taking place in a number of important activities. However, industries generally were operating at very advanced levels and, even where this was not the case, evidence was not available to indicate an economic downturn. Some easing in the labor market had appeared, particularly in automobile manufacturing centers where reductions in both employment and working hours had been greater than had been previously expected. Markets for consumer durable goods were showing a mixed picture, but over-all retail trade continued at high levels. The rise in industrial prices persisted.

The leveling off in economic activity noted at this time had been reflected in the credit situation with bank credit and the money supply having shown about the customary seasonal declines, compared with less than the usual seasonal reductions in early 1955. However, this did not indicate a general slackening in the demand for credit. Business plans for capital expenditures were still impressively strong. Member bank borrowing had increased somewhat in late January and member bank reserve positions had been relatively tight. On balance, the Committee concluded that the signs of economic strength continued to outweigh signs of weakness and that a relaxation of pressure on bank reserves was not indicated, although no increase in restraint appeared to be called for at the moment.

March 6, 1956

This was the first meeting of the Federal Open Market Committee after the new members elected by the Federal Reserve Banks for the year beginning March 1, 1956 assumed their duties.

**1. Authority to effect transactions in System account.**

The Committee again renewed its directive to the Federal Reserve Bank of New York in the same form that had been adopted at the meeting on January 24, 1956 calling for transactions in the System open market account to be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while taking into account any deflationary tendencies in the economy."

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Votes against this action: none.

Domestic industrial production and gross national product had shown little change over the three months preceding this meeting, following uninterrupted and marked advances from mid-1954 to late 1955. Some selective reductions in demand had appeared recently, however, and at this meeting the Committee gave thorough consideration to their possible significance for economic prospects and credit policy. There were indications of diminishing expansionary forces in the consumer credit field, and mortgage lending and housing starts had declined somewhat from the high levels that had prevailed a few months earlier. Pressures on productive capacity seemed to be less than they had been three months earlier, and it appeared that the tremendous upsurge in over-all economic activity over the preceding year and a half was slowing down.

Notwithstanding the foregoing elements, output of steel continued at capacity with reduced demand from the automobile industry being offset by takings of other industries. Evidence of still further rise in plans for capital expenditures by business had appeared, accompanied by widespread expressions of optimism regarding the future. Wholesale prices of industrial commodities and finished goods were continuing to advance, and some recovery in prices of farm products seemed to be getting under way.

Judging from the current high level of activity in most parts of the economy, the Committee saw no evidence that the policy of credit restraint that had been followed for some months had been too restrictive. Even though some divergent tendencies were apparent at the time, a continuation of that policy appeared to be called for and there were indications that increased restraint might become necessary shortly. However, at the time of this meeting a Treasury financing was under way and the Committee desired to avoid action that might disturb the stability in the money market during the period of that financing. It also felt that the adjustments taking place in the automobile and residential building industries and some other areas might slow the growth of credit and help reduce rising price pressures. Its conclusion, therefore, was to continue the existing policy without any overt action toward either increasing or lessening the degree of restraint that then existed.



**2. Authorization to acquire bankers' acceptances and to enter into repurchase agreements.**

The Committee renewed the authorization that had been approved in March 1955 under which the Federal Reserve Bank of New York was authorized (a) to purchase or sell, at market rates of discount, prime bankers' acceptances of the kinds designated in the regulation of the Federal Open Market Committee, at such times and in such amounts as may be advisable and consistent with the general credit policy and instructions of the Federal Open Market Committee; and (b) to enter into repurchase agreements with nonbank dealers in bankers' acceptances covering prime bankers' acceptances, subject to certain conditions.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Shepardson, Szymczak, Vardaman, and Fulton. Vote against this action: Mr. Roberston.

The Committee voted to continue the authority for purchases of bankers' acceptances and repurchase agreements covering such instruments in substantially the form approved at the meeting in March 1955. This was on the grounds that the System should assist in the further development of an acceptance market in the United States with a view to improving this country's means of financing foreign trade and the functioning of an international money market, and with the understanding that purchases of bankers' acceptances would be effected only at such times and in such amounts as might be advisable and consistent with the general credit policy and instructions of the Federal Open Market Committee.

Mr. Robertson voted against the renewal of this authority because he felt that the Federal Reserve System should withdraw from active participation in the acceptance market unless it was clear that such participation would yield specific benefits. He did not believe that this had been the case since the authorization was granted in 1955. Further, he believed that if the Federal Reserve System desired to support and encourage the acceptance market, it could accomplish that objective more effectively by standing ready to purchase acceptances at published rates that ordinarily would represent a fractionally higher rate of discount than market rates.

**3. Review of continuing authorities or statements of policy.**

The Committee reviewed and reaffirmed all continuing statements of operating policy and specific authorities for operations (including authority for repurchase agreements with nonbank dealers in United States Government securities) which were in effect immediately prior to this meeting. Among these were the following statements:

A. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

> Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Votes against this action: none.

B. Operations for the System account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Vote against this action: Mr. Sproul, Vice Chairman.

C. Transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.



> Votes for this action: Messrs. Martin, Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Vote against this action: Mr. Sproul, Vice Chairman.

Renewal of these three continuing authorities or statements of policy was in the same form as that approved in March of 1954 and 1955.

In voting against the continuation of statements B and C set forth above, Mr. Sproul, who had voted against their renewal a year earlier, stated that he was still opposed in principle and in practice to these operating rules. The other members of the Committee believed the continuation of the rules to be desirable.

## March 27, 1956

**Authority to effect transactions in System account.**

The Committee modified its directive to the Federal Reserve Bank of New York by deleting from clause (b) of the first paragraph the instruction to take "into account any deflationary tendencies in the economy" while effecting transactions in pursuit of the general policy of "restraining inflationary developments in the interest of sustainable growth."

> Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Votes against this action: none.

The economic review at this time confirmed the Committee's observations at the past few meetings that economic activity had ceased to advance toward the end of 1955 and had moved on a plateau during the first quarter of 1956. Industrial production had shown little change from the high level reached in the fall months of 1955, nonfarm employment had been steady, and gross national product was estimated to have been only slightly higher during the first quarter of 1956 than in the last quarter of 1955, although it continued at a record high, well above year-ago levels.

The slight increase in total product during the quarter under review reflected mainly further growth in business fixed capital and inventory outlays, in State and local government purchases, and in consumer expenditures for services. Consumer goods purchases at retail had been about stable. Construction activity had been only moderately below the record rate of mid-1955, the decrease reflecting solely reduced residential building. Prices, which had shown signs of weakening early in 1956, had strengthened in March, and key prices were firm to rising, with agricultural prices displaying more than seasonal strength. In other industrial countries, consumer and business demands were continuing to grow, although at a slower pace.

The question before the Committee was whether the economy would resume its advance, remain on the recent plateau, or decline; and the Committee's judgment was that available information pointed toward a further advance. Among the general factors leading to this conclusion were the much greater than expected plans of business concerns in all major lines for plant and equipment expenditures, the widespread optimism of consumers as to the economic outlook and their own financial position and income prospects, and evidence of an exceptionally heavy demand for bank credit in the current month. The Committee also noted that common stock prices had risen sharply further. Growing pressures for increases in prices and wages were evident, and there was danger that if supported by further credit expansion pressures would engender an inflationary spiral.

The Committee discussed the extent to which monetary policy might be used to combat an inflationary cost-price spiral and the risk of incurring temporary unemployment on the one hand, as against the risk of undermining the basis of sustained employment on the other. It was suggested that while monetary policy could not be expected to achieve all of the task of combating inflationary pressures, the System would be derelict in its duty if it did not exercise additional restraint in this situation. In the circumstances, the Committee concluded that its instruction to take into account deflationary tendencies in the economy in effecting transactions for the System account was not consistent with the existing situation or the prospective renewal of growth in the economy. Accordingly, it deleted the qualification as to deflationary tendencies that had been added to clause (b) of the directive at the meeting on January 24, 1956, leaving an instruction to effect transactions for the System account with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth."



In reviewing credit measures at this meeting, the Committee also discussed the relation to open market policy of possible action by the directors of the Federal Reserve Banks to increase discount rates from the 2½ per cent level that had been in effect at all Reserve Banks since November 1955. It was noted that there was some feeling in the System that an increase might be necessary at an early date to prevent undue credit expansion for financing capital outlays through the banking system. On the other hand, there was some feeling that, with increasing credit demand, additional restraint would result from the Committee's policy of limiting additions to the supply of reserves to such amounts as were needed for sustainable growth in the economy.

## April 17, 1956

**Authority to effect transactions in System account.**

The Federal Open Market Committee renewed without change the directive that had been approved at the meeting on March 27, 1956, which called for transactions in the System 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, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Votes against this action: none.

Since the preceding meeting eleven of the Federal Reserve Banks had increased their rates of discount effective April 13, 1956. Nine of the increases were from 2½ to 2¾ per cent and two were from 2½ to 3 per cent. (The remaining Reserve Bank increased its rate to 2¾ per cent effective April 20.)

At the time of this meeting, credit markets were in process of adjusting to the increase in discount rates that had just been announced. This added factor followed a period of several weeks during which the markets had been adjusting to the impact of corporate income tax payments in March, the Treasury refunding operation that had come at the same time as the tax payments, and the heavy loan demand both in capital markets and at banks. The interest rate structure had risen sharply during this three-week period. In considering policy for the period ahead, it was necessary for the Committee to judge the reactions of lenders and borrowers to the current restrictive policy: whether the actions taken thus far would effectively limit credit growth without serious disruption of the credit markets, or whether credit demands remained so strong as to cause further rises in interest rates and a weakening in securities markets that might threaten a money market crisis.

As to economic developments, the Committee found activity continuing to move sidewise on the high plateau that had been maintained since late fall of 1955. The over-all picture was still somewhat mixed, but indications were that pressures growing out of expanding private investment were beginning to tilt activity upward. The automobile and housing markets appeared to have stabilized over the past few weeks, and other consumer markets had been on the firm to rising side. Business and investor psychology continued optimistic, and the picture was generally one of continuing business investment boom, not only in the United States but in other industrial countries as well. The Committee therefore agreed that there should be no relaxation of pressures. However, the restrictive policy should not be pressed too strongly pending more opportunity to observe reactions to the mid-April increase in discount rates, increased pressure on bank reserve positions, and clarification of the economic outlook.

### May 9, 1956

**Authority to effect transactions in System account.**

The Committee renewed without change the directive issued to the Federal Reserve Bank of New York on March 27 and April 17, 1956 for effecting transactions in the System open market account.

> Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Votes against this action: none.

Since the meeting on April 17, 1956 no important change had become apparent in the state of the economy. Output of goods had continued at the high level that had prevailed for several



months. Upward pressures on prices of industrial commodities had continued and new increases in steel prices were anticipated following negotiations of a new wage contract later in the spring or summer. Business demands for goods and services had risen over the months and aggregate consumer demand, including demand for automobiles and housing, had about held its own. Money markets at the time of this meeting were not under quite as much pressure as they had been at the time of the meeting on April 17, which had followed by only a few days the increase in discount rates at the Federal Reserve Banks at a time when the credit markets were still adjusting to the unusual pressures of March.

The Committee saw no evidence of a change in the economy that called for lessening restraint on credit expansion at this time. Demand for credit including demand in the capital markets suggested a further bulge, although there was some feeling that the actions already taken by the Federal Reserve System to restrain undue credit expansion might have a cumulative effect that would hold down the expansionary tendencies. Furthermore, there had been a decline in the liquidity position of business and of banks over a period of months which could have important effects. The Committee's decision to make no change in the existing policy reflected its belief that credit restraint continued suitable to the situation and that no change either toward increased pressure or toward relaxation would be justified at this time.

### May 23, 1956

**Authority to effect transactions in System account.**

At this meeting the Committee restored to clause (b) of its directive to the Federal Reserve Bank of New York an instruction to take into account deflationary tendencies in the economy while pursuing a general policy of restraining inflationary developments. With this change, the clause read as it had from January 24, 1956 to March 27, 1956, that transactions be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while taking into account any deflationary tendencies in the economy."

> Votes for this action: Messrs. Martin, Chairman, Balderston, Erickson, Johns, Mills, Powell, Shepardson, Szymczak, Fulton, and Treiber. Votes against this action: none.

The Committee found less exuberance in the economic situation at the time of this meeting than had been observed at either of the two preceding meetings. Although a sidewise movement on a high plateau still seemed to be continuing, divergent tendencies had been noteworthy during the past few weeks. In particular, sales of new automobiles had been weak at the consumer level and dealer inventories of new cars had risen to around 900,000 units with the result that output was being cut back sharply. Use of consumer instalment credit had slowed down further. The Committee recognized the possibility that future developments could be affected by weaknesses in some parts of the economy and by a pessimistic business and investor psychology. Another factor was the less ready reception accorded new capital issues as large offerings came to the market seeking funds to carry out the large business spending programs. Stock prices had declined sharply. Bank reserves had been under greater pressure during the past three weeks than had been anticipated by the Committee, and member bank borrowing at the Federal Reserve Banks had risen to the highest level since early 1953 and held there for several weeks. Bankers and businessmen were expressing fears, at least privately, as to whether credit for needed purposes would be available even at higher interest rates during the months ahead.

The Committee still believed that the basic economic factors were expansionary. Under the circumstances, however, it determined to restore to its directive the qualifying clause that would require the Management of the System Open Market Account, in carrying out transactions in pursuit of a generally restrictive credit policy, to take into account any deflationary tendencies that might be appearing in the economy. To implement this policy, the Committee agreed that during the immediate future additional reserves should be supplied to take care of seasonal and growth needs; it did not wish to permit a further tightening to develop as pressures for increased credit bore against the existing supply of reserves.

## June 5, 1956

**Authority to effect transactions in System account.**

The Committee made no change in the directive to the Federal Reserve Bank of New York that had been approved at the preceding meeting held on May 23, 1956, stating a policy of restraining



inflationary developments while taking into account any deflationary tendencies in the economy.

Votes for this action: Messrs. Martin, Chairman, Balderston, Erickson, Johns, Mills, Shepardson, Szymczak, Vardaman, Fulton, Leedy, and Treiber. Votes against this action: none.

Economic data presented at this meeting confirmed that a sidewise movement in activity was continuing. May automobile sales had proved generally disappointing but sharp cutbacks in production had started to reduce the heavy dealer stocks of new cars. Some reduction in output of household appliances had been reported and production of textiles, particularly synthetics, had been reduced. Common stock prices had declined further during this period.

In contrast to these indications of weakening in parts of the economy, little change in total employment and over-all output was evident and credit demand continued vigorous. A particularly significant development was indicated by the latest figures of business plans for plant expansion which showed a still further rise in such programs. It appeared that the continuation of the boom in business investments would largely offset the readjustment currently taking place in the automobile industry. On the financial side, a somewhat better tone had appeared in markets for new capital issues and additional offerings had been reported. Interest rates had steadied after the decline in long-term rates earlier in May. Bank reserve positions had been eased as a result of the System's action in putting nearly $300 million of reserves into the market during the preceding two weeks, in addition to making repurchase agreements available. Estimates indicated that additional reserves would have to be supplied in order to take care of seasonal and other temporary needs for credit and currency during the June tax payment and midyear settlement period and over the July 4 holiday.

In view of the atmosphere of uncertainty that still existed in some quarters, it appeared desirable for the Committee to continue a program that would dispel any doubts as to its readiness to meet seasonal and other temporary reserve needs. It was recognized that the past momentum that had been evident in the economy did not necessarily indicate prospective economic conditions. The Committee did not wish policy to become more restrictive at this stage of the sidewise movement in the economy, although it was satisfied that no material change from the general policy of restraining inflationary developments was called for. The decision to renew its directive without change thus contemplated a continuation of operations that would limit credit expansion but which would supply additional reserves during the next few weeks as a means of avoiding an increase in pressure.

June 26, 1956

**Authority to effect transactions in System account.**

The Committee again renewed its directive to the Federal Reserve Bank of New York without change from the instruction approved at the meeting on May 23, 1956.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Erickson, Johns, Mills, Powell, Shepardson, Szymczak, Vardaman, Fulton, and Treiber. Votes against this action: none.

The economic situation looked considerably stronger at the time of this meeting than at either of the two preceding meetings of the Federal Open Market Committee. While evidence of summer doldrums was beginning to appear and the imminent steel strike was creating uncertainties, total industrial production was holding steady within the narrow range maintained for some months. Retail sales of new automobiles had picked up noticeably during June, common stock prices had rebounded a little, business sentiment had a much more confident tone than during the second half of May, and demand for credit was showing exceptional strength. Average wholesale prices had shown little further advance in recent weeks although industrial commodities continued to rise.

In the financial picture, Treasury operations had exerted less of a drain on reserves of commercial banks than had been expected. Reserve System operations had added to bank reserves, which on the whole had been more freely available during the past month than earlier in the spring, although the money market had not eased significantly.

The Committee's decision to continue without change the existing directive calling for restraint on inflationary developments was taken on the basis that the composite picture at midyear, as judged



from data on production, trade, employment, and prices, was one of a basically strong and expanding economy. It believed, however, that in carrying forward its policy, it should for the present continue to take into account any deflationary tendencies and maintain as nearly as possible stability in the money market. It noted that immediate seasonal demands would require several hundreds of millions of reserves over the July 4 holiday period, and it also gave consideration to the prospective needs of the economy for perhaps $1.5 billion of additional reserves during the second half of 1956 in order to meet seasonal and growth needs, including needs connected with Treasury financing operations to be announced shortly. The Committee agreed that, within the framework of the restrictive policy it had been following, doubts should be resolved on the side of ease during the next few weeks, rather than on the side of actions that might be construed as additional restraint, even though there was the possibility that the System would find it desirable to move toward substantially greater restraint in the fall.

July 17, 1956

**Authority to effect transactions in System account.**

The Committee continued without change the directive to the Federal Reserve Bank of New York that had been approved on May 23, 1956 and at each meeting since. The policy stated in that directive was one of restraining inflationary developments while taking into account any deflationary tendencies in the economy.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Johns, Mills, Powell, Shepardson, Treiber, Vardaman, Fulton, and Williams. Votes against this action: none.

Economic data presented at this meeting showed continued broad strength in the economy with a further upward tilt to activity. Wholesale prices had been fairly steady for several weeks, but consumer prices had been rising. Credit demand continued active and business and financial sentiment optimistic. The impact of the steel strike had been limited mainly to that industry and closely related activities; it did not appear to have had a marked effect generally in the economy, partly because of the large inventories of steel that had been built up prior to the beginning of the strike. Gross national product had risen further during the second quarter of the year, and personal income also was above any previous level. Although farm income was still lower than a year ago, some recovery in prices of farm products appeared to be taking place. Retail trade had been at a near-record level during June despite reduced sales of automobiles. Industrial construction had increased sharply further during June and the number of housing starts, though reduced, was still running at a high annual rate.

The strength indicated in the domestic and foreign economies was reflected in recent credit developments. Total bank credit had shown a net increase during the past six weeks. Banks were continuing to liquidate holdings of Government securities as their loans increased. New corporate issues for plant expansion and improvement continued in large volume and, reflecting the active demand for such financing, yields on the securities offered were relatively high. Even so, some accumulation of unsold securities had been reported in dealers' inventories. All evidence indicated that businesses were using available funds more actively than they had been earlier in the year.

The increase in discount rates in April had been followed by a period of severe pressure in the money market, which the Committee had relieved somewhat by open market operations in late May and June. At the moment, continuation of firm restraint seemed necessary not only because most current indicators were tending upward but also because it was felt that whatever settlement of the steel strike was arrived at would create additional inflationary pressures. The Committee did not believe, however, that this was the time for clearly increased restraint. It recognized that if a settlement of the steel strike was delayed for a considerable period, action of an easing nature might become necessary. Another reason for the conclusion that no significant change in credit policy should be made at this time was the fact that the meeting was held in the midst of a Treasury refunding operation and at a time when it was expected that the Treasury very shortly would announce a substantial offering of securities for cash. In these circumstances, the Committee decided that continuation of firm restraint was appropriate for the time being. Such a program would permit it to move either toward greater restraint or toward easing, depending upon developments during the next few weeks.



August 7, 1956

**Authority to effect transactions in System account.**

At this meeting, the Committee deleted from its directive the qualification that had been inserted on May 23 to take into account any deflationary tendencies in the economy, leaving the policy as one of "restraining inflationary developments in the interest of sustainable economic growth." With this change, the instruction returned to the wording that had been used from March 27 to May 23 of this year.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Vardaman, and Fulton. Votes against this action: none.

Aggregate industrial output had dropped fairly sharply during July as a result of the work stoppages in the steel and related industries and some reduction in such nondurable goods industries as textiles and paperboard. Nevertheless, the composite of information confirmed the view presented at the preceding meeting that economic activity had resumed an upward slant. Wage and other costs were tending upward. Demand pressures continued strong. With settlement of the steel strike, business psychology was clearly on the buoyant side and prices of commodities were generally firm to rising. Some prices had reflected the Suez Canal crisis, but increases in numerous commodities were not directly related to that situation. In contrast to the general tendencies, prices of lumber and textile fibers continued on the soft side.

Credit developments since the preceding meeting had not been particularly striking. Commercial loans had declined moderately during July, and loans on securities and holdings of securities also declined. Demands on the capital markets continued large, and a further rise in corporate bond yields on both outstanding securities and new issues had been recorded. Yields on long-term bonds, which had declined in May and June, had again risen to or above the previous highs for this year as well as the highs for 1953. All indications pointed to continued strong credit demands, although it was believed that credit growth during the remainder of the year might not be so strong as in the second half of 1955.

The Committee gave especial attention to the rate at which economic resources of the country were being used and to the tendencies of prices to rise in numerous markets. These price tendencies appeared to result from the competitive spending, investing, and borrowing propensities of a highly optimistic business and consumer public, rather than from fiscal and monetary policies, which had been anti-inflationary. It appeared that there was danger in misdirected use of resources, unwise judgment as to business and investment opportunity, over-optimism as to management's ability to pass along higher wages and other costs into higher prices, over-commitment of credit based on a discounting of the future, and a cumulative deterioration in the quality of credit. The Committee felt that at this stage monetary policy should minimize the dangers referred to by fostering as efficient an allocation of scarce resources, including savings, as could reasonably be effected by market processes. The Committee believed it should do what it could toward discouraging the financing of plant and equipment expenditures out of bank credit when such demands should be satisfied in the long-term capital market. At the same time, it wished to take care of normal growth and reasonable credit needs of the economy as such needs arose.

In concluding that it was no longer appropriate to retain in the directive the instruction to take into account deflationary factors, the Committee also discussed other measures that might be taken to strengthen credit restraint, including the possible desirability of action by the Federal Reserve Banks to increase discount rates. It was felt that operations should not be modified materially until the current Treasury financing had been completed, but it was suggested that additional actions toward restraining credit expansion would more than likely be needed shortly.

## August 21, 1956

**Authority to effect transactions in System account.**

The Committee made no change at this meeting in the directive to the Federal Reserve Bank of New York calling for continuation of operations with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth."



Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Vardaman, and Fulton. Votes against this action: none.

Most of the measures of production, consumption, and prices presented at this meeting seemed to confirm that the economy was still definitely in an expanding phase. During the two weeks since the preceding meeting, there had been numerous and sizable price advances in industrial commodities, especially in metals and metal products. Industrial output had rebounded sharply from the July steel strike. In the central money markets, interest rates had risen appreciably.

The tendency toward price increases was spreading in both raw materials and finished goods in response to recent wage increases. Heavy demand for capital funds, with business and personal savings insufficient to match the demand, was putting pressure on banks. This tendency was being accentuated by the reluctance of borrowers to accept sharply higher long-term interest rates, as indicated by the fact that several long-term capital issues had been deferred or withdrawn from the market recently. Bank loans had shown moderate seasonal increases for several weeks preceding this meeting, but banks appeared to be increasingly reluctant to reduce their liquidity ratios further by selling Government securities to procure funds for loan expansion. System operations had been directed toward supplying reserve funds to meet seasonal needs but the reserve position of banks had tightened since June and July.

The Committee felt that credit policy should be made somewhat more restrictive, but in view of the fact that individual Federal Reserve Banks were known to be considering discount rate increases at a time when the market for Government securities was showing strain, the directive was renewed with no change in the general open market policy of restraint on credit expansion.

## September 11, 1956

**Authority to effect transactions in System account.**

The directive of the Federal Open Market Committee was renewed without change at this meeting, providing for continuation of a policy having as its objective the restraint of inflationary developments in the interest of sustainable economic growth.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Fulton. Votes against this action: none.

Reports at this meeting showed that aggregate demand and supply were continuing to rise, that there was sustained vigor in the demands for credit and capital, and that business and financial psychology was confident. Prices of a number of raw materials had leveled off in recent weeks, but the general tendency of prices for fabricated industrial products continued upward as did prices of consumer goods. Capital expenditure programs were still pressing on supplies of materials, on manpower, and on the capital goods industries, and late information regarding business plans for plant and equipment expenditures during the fourth quarter of 1956 indicated a further rise to an annual rate of about $38 billion, compared with an expected total for the year of $35.5 billion, an amount about 25 per cent higher than for the year 1955.

Industrial output for August had recovered sharply and in September appeared to be running at a rate in excess of the level before the steel strike in July. Employment for August showed a record high and unemployment showed more than the usual seasonal decline. Retail markets except for automobiles had been showing considerable strength. Construction activity in August had been at about the July record rate, a decline from the preceding year of about 12 per cent in residential construction having been offset by higher levels of industrial and commercial construction. Farm price developments, combined with larger marketings and soil bank payments, indicated that net income of farm operators in 1956 probably would exceed that of the preceding year.

Increases in discount rates during the latter part of August to a uniform level of 3 per cent at all Federal Reserve Banks had produced little reaction in money markets. Total loans and investments of banks had increased during August. The money supply, which was barely 1 per cent higher than a year earlier, had shown relatively little change in recent months, but turnover had been at a faster rate. It did not appear that credit restraints thus far adopted had been too severe; additional reserves had been supplied in substantial amounts during the past three weeks to help meet seasonal



needs, and credit demands were generally being met although there were indications that expansion of credit was being limited.

Figures presented to the Committee at this meeting suggested prospective growth in bank credit during the autumn at least equal to normal seasonal expectations. In addition, there was some tendency for long-term borrowers to shift from capital markets to the commercial banks even though bankers were reported to be resisting the trend toward use of bank credit for capital purposes. Another factor was the prospect that the Treasury would have to borrow substantial additional amounts of new funds in October aside from refunding maturing certificates later in the year. Still another influence on the Treasury's need for funds was the high rate of redemption of savings bonds.

The Committee's broad objective continued to be to restrain inflationary developments but, as always, it recognized that monetary and credit policy alone could not be successful in halting inflationary pressures. It believed it necessary to assist in meeting seasonal and growth demands for credit as well as the needs of the Treasury in its financing operations, even though the buoyant state of the economy clearly required a continuation of at least the existing degree of restraint. In renewing its directive without change, the Committee did so with an instruction to the Management of the System Account to maintain substantially the existing degree of stability in the market, with doubts being resolved on the side of tightness rather than of ease, but with the understanding that the Account Management would not initiate action toward more tightness.

September 25, 1956

**Authority to effect transactions in System account.**

At this meeting, the Committee again renewed without change its directive calling for a policy of restraining inflationary developments in the interest of sustainable economic growth.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, Vardaman, and Fulton. Votes against this action: none.

Economic reports to the Committee at this meeting showed essentially a continuation of the trends reported at the meeting held two weeks earlier. There was general strength in expansive forces throughout the economy, with demands pressing against supplies in many sectors and with some further rise in wholesale prices.

The rebound in economic activity since the end of the steel strike early in August had been even more rapid than was expected earlier. To a large extent the great strength of the business picture reflected a record level of capital formation, but consumer spending also had been well maintained. While residential building was at levels moderately below those of a year earlier, actual developments did not indicate that a substantial further decline was likely to be precipitated by lack of adequate mortgage credit. Continued expansion in employment and production to the extent permitted by capacity limits and further upward pressures on prices seemed likely during the immediate future. Wholesale prices had risen almost without interruption since the end of June, and the vigor of the current economic expansion pointed to some danger of renewed speculative building of inventories although there was not much evidence that this had actually taken place.

Heavy demands had continued in capital markets and bank loans had risen considerably in the six weeks preceding this meeting, with business loans accounting for all of the increase. It seemed clear that credit restraints had not resulted in undue curtailment of either business or consumer spending, although they had no doubt kept banks from supplying some of the demands for credit, which continued strong.

One of the factors given particular attention by the Committee at this meeting was the prospective borrowing by the United States Treasury of a substantial volume of new funds. The money market had been consistently tight recently and it appeared that the Treasury might have some difficulty in coming to the market at this time. The Committee considered on the one hand its responsibility for contributing to economic stability and minimizing inflationary pressures, and on the other hand the responsibility that it had in connection with the Treasury's financing problem. It directed its discussion toward how the System might take appropriate account of that situation while pursuing a policy that would restrain undue credit expansion in the economy as a whole. Its conclusion was that the general policy directive should not be changed, that operations for the System account should limit additions to reserves to meet seasonal needs so as to maintain pressures of about the same degree that had existed recently, but that in case of doubt operations should be resolved on the side of ease rather than restraint during the period immediately ahead.



## October 16, 1956

**Authority to effect transactions in System account.**

Again the Committee renewed without change its directive stating a policy to restrain inflationary developments in the interest of sustainable economic growth.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Mills, Powell, Robertson, Shepardson, Szymczak, Bryan, and Fulton. Votes against this action: none.

Domestically, the over-all economic picture at the time of this meeting continued to be one of general expansion of activity, rising average prices for industrial commodities, and high confidence in both near-term and longer term business prospects. Consumer demand was well sustained while unemployment had reached the lowest levels since 1953. There were, however, some indications that the inflationary pressures in the economy had become a little less intense than they were in the weeks immediately following the steel strike settlement. Sentiment while still buoyant seemed to be a little more cautious. Many price increases were still being reported, especially among finished and semi-finished goods, but there had been recent easing of several important raw material prices. Consumers appeared to be increasingly concerned over the price outlook.

Growth in total bank loans during the third quarter of the year had been substantial but slower than in the first half of 1956 or the third quarter of 1955. Business loans had increased more over the past three months than total loans; real estate loans also had increased, while loans on securities had declined and all other loans (including consumer loans) had shown little change. The Treasury had successfully raised approximately $1.6 billion in new money. Notwithstanding a large volume of new corporate offerings, the bond market had had a better tone and yields on outstanding issues had been relatively stable in recent weeks. The calendar of prospective new capital issues continued large. Short-term money rates had tended to rise further, despite a somewhat easier bank reserve position than had existed a few weeks earlier.

The consensus of the Committee was that no change should be made at this time in the policy of restraint on inflationary developments. This did not imply a greater degree of restraint, for the Committee wished to avoid a tightening that might seriously unsettle the capital markets and intensify the demand for short-term credit. It observed that seasonal demands for credit could be expected automatically to cause some tightening during the next several weeks, besides which additional Treasury financings for cash and refunding would exert further pressure. The Committee also observed that banks could use the Federal Reserve discount facilities as pressure increased. In addition, it contemplated that, if undue tightening developed, reserves should be supplied through the open market with a view to maintaining substantially the present degree of restraint.

November 13, 1956

**Authority to effect transactions in System account.**

No change was made at this meeting in the wording of the Committee's directive that System operations in the open market be with a view, among other things, to restraining inflationary developments in the interest of sustainable economic growth.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

The over-all economic situation still appeared to be inflationary. Since the preceding meeting the Middle East war crisis had caused major uncertainties, however, and cumulative pressures from restrictive monetary and fiscal policies were showing up at the same time that there were indications that the upward momentum of the boom might be losing some of its force.

Industrial output during October had increased slightly further from the September level and during the current month appeared to be at least equal to the October rate. Employment continued at a high level and upward drift in industrial prices persisted. On the other hand, information on industrial construction showed some decrease in recent weeks and residential construction, although still



high, continued below the record 1955 levels. Department store sales in October were only 1 per cent higher than a year earlier despite higher retail prices.

Bank credit growth had slackened perceptibly during recent weeks. This slowing reflected in part restraint on bank lending because of the continued tight reserve position as well as the lowered liquidity position of the banks; it appeared that demand for funds was still strong. Capital markets continued under pressure from the large volume of new issues offered and awaiting offering, and bond yields had risen to postwar highs. Corporate profits were showing signs of leveling off or declining.

The prospect for further seasonal expansion in demand for credit and for additional Treasury financing before the end of the year, with their possible effects on the money market, led the Committee to the conclusion that the degree of restraint should not be intensified at this time. Also, while there was no real indication that the boom had leveled off, there were a number of uncertainties growing out of the international situation, the profit squeeze that had been in evidence for almost a year, the somewhat reduced level of total construction, and the lack of factors pointing definitely to higher levels of economic activity in the future.

Accordingly, in continuing its policy of credit restraint, the Committee did so with the thought that another meeting should be held within two weeks, that in the meantime the degree of pressure in the money market should remain substantially unchanged, and that the members of the Committee should be alert to the possible need for a modification of policy that might develop as a result of the divergent influences noted at this time.

November 27, 1956

**Authority to effect transactions in System account.**

The Committee continued its directive calling for a policy of restraining inflationary developments in the interest of sustainable economic growth, but it added a qualifying instruction to clause (b) that in carrying on such a program recognition should be given to additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell,

Robertson, Szymczak, and Vardaman. Votes against this action: none.

Since the meeting held two weeks previously, information becoming available had made it clearer that the economic effects of the Middle East crisis were serious and would not soon be overcome. Domestically, business advance was general, although housing was an important exception. At the same time, there were some "straws in the wind" suggesting possible slackening of activity later on.

Industrial prices had continued upward because of advances in fabricated items and industrial materials, some of which reflected the Middle East situation. Wholesale prices had remained stable on the average reflecting the offsetting effects of lower farm products prices, mainly seasonal reductions in livestock prices. Consumer prices had continued to rise. Industrial output had increased somewhat further in November, and department store sales had rebounded from the reduced October level.

The straws in the wind included October declines in the principal segments of construction—residential, industrial, and public utility. Preliminary data suggested that plant and equipment expenditures for 1957 would rise only slightly from the current rate. Inventories of most goods seemed abundant relative to sales, considerably higher than a year earlier. Business failures had risen to a new postwar high in October. Third quarter corporate earnings data showed that the cost-profit squeeze was continuing to increase with more than two-fifths of the large firms for which data were available showing earnings below the third quarter totals of 1955.

Among financial developments, there had been a sharp decline in Treasury bond prices just before this meeting, accompanied by a rise in the Treasury bill rate to a new high level even though the reserve position of banks outside New York and Chicago had been relatively easy. Expansion in bank loans during the past four weeks had been smaller than in the comparable period of 1955 and banks had made further reductions in their investments. All in all, credit restraint seemed to have taken hold more effectively in the autumn of 1956 than at any time in the past two years.

While the immediate situation impressed the Committee as continuing to be inflationary, it took cognizance of the suggestion



that a fundamental change in the foreign and domestic outlook could be in the making. It did not wish the disturbed conditions in the securities market to become worse and bring on a disorderly situation which might require that more reserves be put into the market than would be necessary to meet the seasonal and growth demands. However, in adding to the directive the qualifying instruction to recognize "additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions" the Committee did not intend an overt change away from a policy of restraint; it desired to indicate that the Committee was alert to the kind of pressures that developed toward each year-end as well as to the uncertainties implicit in the international situation and in financial markets.

## December 10, 1956

**Authority to effect transactions in System account.**

The Committee made no change in credit policy at this meeting, and the directive to the Federal Reserve Bank of New York was renewed in the same form as at the meeting held two weeks earlier. This directive called for continued restraint on inflationary developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Roberston, Shepardson, and Szymczak. Votes against this action: none.

Recent international developments had had important economic effects abroad including a substantial drain on British monetary reserves, curtailment of the flow of petroleum to Western Europe, and sharp increases in shipping rates. One result of the Middle East developments and the current British sterling crisis had been the announcement by the United States Treasury of an additional financing for cash in the amount of $1 billion. This announcement, which came just prior to this meeting, surprised the money market because it had been generally assumed that the Treasury's financing needs had been taken care of for the remainder of the calendar year.

The review of the domestic business and financial situation indicated need for continued restraint on credit expansion in the near future, although it did not appear that additional restraining measures were necessary. Industrial production and industrial prices had continued to advance over recent months, reaching new high levels. Increases in both production and prices had been widespread. Unemployment was low, gross national product had continued to rise, and expansion in capital equipment expenditures had been greater than anticipated early in the year.

Along with these indications of sustained or expanded activity, there were some evidences that the upward pressure of the boom might be diminishing. The previously noted reduction in housing construction persisted although volume was still at a high level; production of automobiles had not been up to 1955 volume; and outputs of lumber, synthetic fibers, and some paper items were well below capacity. Surveys of private capital expenditures for the coming year were indicating a flattening out of the current high level rather than any new sharp gains.

Open market purchases had been fairly heavy during the past several weeks and had been designed to alleviate potential strains attributable to seasonal factors, Treasury financings, and the international situation. However, the market had continued under rather severe pressure. Loan expansion during the fall months had been less rapid than had been expected three months earlier or than had taken place in 1955. It was clear that the normal year-end needs would require additional funds of a temporary nature and that these demands would exert an increased restraining effect unless reserves were made available. The Committee issued its policy directive in the belief that additional restraint should not be applied over the year-end period and that, while the existing policy should not be changed, reserves should be supplied to assist in meeting the seasonal and other temporary needs for reserves that would arise during this period.

* * *

At the beginning of the year 1956, the policy directive of the Federal Open Market Committee was, as set forth on page 17, one which provided for "restraining inflationary developments in the interest of sustainable economic growth." During the year, five changes were made in the wording of clause (b) of the directive.



On January 24, there was added a qualifying instruction to take "into account any deflationary tendencies in the economy." On March 27, this qualifying instruction was deleted. On May 23, the Committee reinserted the instruction to take "into account any deflationary tendencies in the economy," and on August 7, the Committee again deleted the phrase. On November 27, the Committee added to the policy statement calling for restraint on inflationary developments the instruction that recognition be given to "additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions." With these changes, the directive that was in effect at the close of 1956, as approved at the last meeting of the year on December 10, read as follows:

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 restraining inflationary developments in the interest of sustainable economic growth while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions, 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.