A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, February 2, 1954, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Erickson
Mr. Evans
Mr. Mills
Mr. Johns, Alternate for Mr. Sproul

Messrs. Robertson, Szymczak, and Vardaman, Members of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Solomon, Assistant General Counsel
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on January 19, 1954, were approved.

Before this meeting there had been sent to the members of the committee a report prepared at the Federal Reserve Bank of New York covering open market operations for the period January 19 to January 28, 1954, inclusive, and at this meeting there was distributed a supplementary report covering commitments executed on January 29 and February 1, 1954. Mr. Rouse commented briefly on the supplementary report.

Copies of both reports have been placed in the files of the Federal Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, transactions in the System account during the period January 19 to February 1, 1954, inclusive, were approved, ratified, and confirmed.

Mr. Young presented a review of economic and financial conditions, commenting on the text of a staff memorandum dated January 29, 1954, copies of which had been sent to the members of the committee before this meeting. Mr. Young noted that at the end of January economic activity was still edging downward although a few signs of slackening in the rate of decline were appearing. Business and financial observers, he said, seemed generally to hold the view that the current recession will not become serious. During his comments, Mr. Young emphasized the significance of recent developments in the labor market including the increase in unemployment since early December, the decrease in nonagricultural employment, and the rise in claims for unemployment compensation. All of these measures indicated a sharp loosening in the labor market, he said, and these indications were confirmed by data on hiring and lay-offs in manufacturing, the hiring rate at factories in December having been the lowest for any month except November 1937 since the series began in 1930, and the lay-off rate having been the highest for any December in the postwar period. Mr. Young also noted that the quit-rate, which is usually low when job opportunities are limited and high when job opportunities are plentiful, was about as low as at any time during the postwar period.

Mr. Thomas stated that bank loan contraction had continued during January and that preliminary figures indicated a decrease of over $1-1/2 billion in loans (excluding interbank loans) of reporting member banks during the past four weeks, a decline more than twice as great as occurred during the corresponding period a year ago. On the other hand banks have added to holdings of Government securities during this period, whereas last year they were reducing such holdings. As a net result, Mr. Thomas said, there has been very little change in private demand deposits so far this year. The reserve position of member banks has been very easy during recent weeks although, as had been expected, a relative tightness developed toward the end of last week. Mr. Thomas then commented on estimates of reserve changes by weeks during February and March. These estimates, he said, indicated that the money market would not be particularly tight between now and the end of March although there would be some variations from time to time. The present relative tightness might be expected to continue in some degree for the next week or ten days and then be followed by a period of relative ease.

Mr. Rouse stated that the response to the Treasury's offering of new securities last week had been excellent. (The Treasury had offered one-year 1-5/8 per cent certificates of indebtedness and seven-year nine-month 2-1/2 per cent Treasury bonds in exchange for the 2-1/4 per cent certificates of indebtedness maturing February 15, 1954 in the amount of

$8,114 million and for the 1-3/8 per cent Treasury notes maturing March 14, 1954 in the amount of $4,675 million. In addition it offered the seven-year nine-month 2-1/2 per cent Treasury bonds in exchange for 2 per cent bonds of 1952-54 having a final maturity of June 15, 1954 in the amount of $5,825 million and 2-1/4 per cent bonds of 1952-55 and the partly tax-exempt 2-1/4 per cent bonds of 1954-56 in the total amount of approximately $2,200 million which it announced would be called for redemption on June 15, 1954.) With respect to the money market, he noted a sharp tightening in conditions on Thursday and Friday of last week in contrast with the relative ease which prevailed on Wednesday, at which time the most recent issue of Treasury bills had sold at a yield of around .92. Mr. Rouse said that there is an active demand for bills. He also commented on prospective developments during February and March, stating that the Treasury planned to send an inquiry to larger corporate tax payers (probably those whose taxes would amount to $5,000,000 or more annually) asking how they expected to meet their tax liability in March. He felt that the results of the inquiry would give both the Treasury and the committee helpful information. With respect to factors affecting reserves over the next few weeks, Mr. Rouse felt that during much of February and March the factors adding to or taking from reserves would be in rough balance and that there would be a nominal amount of free reserves.

Mr. Erickson stated that the comments Mr. Young had made regarding the economic situation nationally would apply reasonably well to New

England. In that area, department store sales have held up perhaps better than in the rest of the country. Loans of Boston banks have shown little change since the beginning of this year, after having shown some contraction early last fall.

Chairman Martin inquired whether there was any feeling that the general policy of "active ease"should be modified or whether there should be any change in the general procedure the committee had been following in carrying out that policy.

None of the committee members indicated that either the general policy or the procedures for carrying it out should be modified at this time.

Mr. Rouse stated that in line with the policy of actively maintaining a condition of ease in the money market with the understanding that if error were made it would be preferable to err on the side of ease, he had given instructions to the securities department of the Federal Reserve Bank of New York to purchase $75 million of bills today.

Chairman Martin referred to the discussion at the meeting on January 19 of the figure of $400 million of free reserves as a possible guide to open market operations. He stated that he did not think the committee wished to have any particular figure as a guide but that he would like to know whether any of the members of the committee felt that this figure offered a reasonable indication of what "active ease" meant.

Mr. Mills stated that projections for the week of February 17 and beyond assumed free reserves of $500 million or more which would give a very considerable amount of ease and, based on past experience, would depress the bill rate. He wondered whether such a reduction in that rate would be desirable.

Chairman Martin thought that the question of the effect of such a volume of reserves was an important matter for consideration. The committee was open to the criticism that the market got too sloppy recently, he said, noting that there were many reasons why that happened, such as the occurrence of the Treasury's overdraft at a bad time and unexpected float. But he felt that there was a question whether the committee should have been more active in selling bills into the market earlier.

Mr. Rouse responded by saying that he felt the market had gotten pretty sloppy and that the major source of the excessive liquidity had been the net error of $500 million in the projection of the Treasury's cash position. In discussions of the situation at that time it had seemed that it might require sales of around $500-600 million in order to take out the sloppiness. Some sales were made, he noted, but there was always the question whether it would be feasible to make sales in the amounts that would be required to take the sloppiness out of the market when it appeared that as much as $500 or $600 million might have to be sold, and when the projection at that time indicated that the account would be faced with a problem of buying back securities in that amount a little later on. While subsequent developments had indicated it might have been possible to have bought back a moderate amount of bills without undue rate effect toward the end of last week, the sales actually made at the time seemed to be about what could be considered appropriate. Mr. Rouse stated that his conception of the operation at this time was that the account should buy and sell on the basis of judgment as to market feeling rather than try to rely on estimates of factors that might affect reserves.

During further discussion, Chairman Martin stated that the committee has been seeking flexibility, that there had been some criticism that it would have been wiser to have been more flexible than had been the case during the past few weeks, and that it might have been desirable to have sold as much as $500 million of bills at the time of the marked ease in the market so as to have avoided such sloppy conditions. This presented a fine matter of judgment, he said, and he had raised the question because of the criticism that had come to him regarding the recent situation in the market. In this connection, Mr. Rouse pointed out that the volume of sales during January had been based on the estimates available at the time. He further noted that the System account could pursue a flexible course when transactions undertaken are of the order of $100-200 million, but that an attempt to conduct flexible in-and-out operations in a volume substantially in excess of that would encounter difficulty.

Mr. Evans inquired whether there was a program for reducing holdings of the System account with the thought that the securities would be taken over by commercial banks and other investors and that reserve requirements would be reduced as a means of enabling the banks to purchase such securities. There was some discussion of this question but no conclusions were reached.

At the conclusion of the discussion, Chairman Martin asked whether, in continuing the general program for carrying out the policy of actively maintaining a condition of ease in the money market, any change was called for in the existing directive to the Federal Reserve Bank of New York.

Mr. Rouse responded that he had no suggestions to make in that connection. He asked, however, that there be an indication as to the procedure that should be followed in exchanging securities held in the System account under the terms of the Treasury refunding offered last week. His own view would be to exchange the securities which were maturing in February and March for the 1-5/8 per cent certificate. He raised the question whether it might be desirable to exchange perhaps $250 million of these securities for the seven-year nine-month 2-1/2 per cent bonds being offered. Mr. Rouse stated that there were no securities in the account of similar maturity to these 2-1/2 per cent bonds and that some holding of them would balance the System account. However, he did not think it a matter of much importance whether the committee acquired some of those bonds or not. With respect to holdings of the 2 per cent bonds of 1952-54 having a final maturity on June 15, 1954, Mr. Rouse expressed the view that he would do nothing at this time and would wait for a later offering on those securities.

During a brief discussion of this matter, the unanimous view was expressed by the members of the committee that all of the System's holdings of the February and March maturing securities should be exchanged for the 1-5/8 per cent one-year certificates of indebtedness which had been offered by the Treasury, and it was understood that this procedure would be followed.

> Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the executive committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System 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 promoting growth and stability in the economy by actively maintaining a condition of ease in the money market, and (c) to the practical administration of the account; provided that the total amount of securities in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than $500 million;

(2) 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;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of 2-1/4 per cent Treasury certificates maturing February 15, 1954 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.

At Chairman Martin's suggestion, there was a discussion of the discount rates of the Federal Reserve Banks and whether it would be desirable and appropriate to make a reduction in that rate in the near future and, if so, what the amount of such reduction might be.

It was agreed that the next meeting of the committee would be held on Wednesday, February 17, 1954, at 10:45 a.m.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary