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 Wednesday, February 17, 1954, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Mills

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
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 February 2, 1954, were approved.

Chairman Martin suggested that inasmuch as Mr. Rouse had been delayed in arriving for the meeting, the report of operations in the System open market account since the last meeting of the committee be deferred until after the review of the economic and credit situation.

Mr. Young made a statement with respect to the economic situation concerning which a memorandum dated February 12, 1954, had been sent to the members of the committee before this meeting. Mr. Young noted that thus far there had appeared few signs of a halt in the contraction in industrial activity and employment which has been under way since mid-1953, but neither had there been evidence of acceleration in the contraction. During his comments, Mr. Young reported on the results of a spot survey of the mortgage market which had just been made through the Federal Reserve Banks and by direct inquiry by members of the Board's staff, from which it appeared that the mortgage market currently is in a much more favorable position than it was six months ago. Both Federal Housing Administration and Veterans Administration mortgages are firm at prices ranging from 95 to 100, whereas a few months ago larger discounts were necessary in order to move such mortgages. Advance commitments on mortgages are being freely made, for the most part at commitment fees of about 1 per cent. Mr. Young also noted that as a further indication of the tone of the market, active interest is now being shown in a few projects under section 213 of the National Housing Act relating to cooperative housing, in contrast with the complete lack of interest by financing institutions in projects of that type during most of 1953.

Mr. Thomas stated that there had been little change in the banking and credit picture during the past two weeks. He presented figures of recent changes in loans, holdings of securities, and deposits of reporting member banks and commented upon estimated changes in various factors that would affect reserves during the next few weeks. Mr. Thomas noted that these estimates were especially subject to change at the present time because of unusual fluctuations in expected Treasury operations, and he pointed to differences between the projections prepared at the Board and those prepared at the Federal Reserve Bank of New York as illustrating the difficulty of making estimates which would serve as useful guides at this time. On the whole, it was his view that a relatively easy market situation would prevail for the next several weeks.

Mr. Rouse joined the meeting at this point.

Mr. Rouse and Mr. Gaines commented upon differences in estimates prepared at the New York Bank and at the Board of factors which would affect the supply of reserves during the next few weeks, and Mr. Sproul noted that the differences in estimates illustrated the difficulty of trying to be too precise in offsetting, through operations for the System account, other factors which might affect reserves in the market. The view was expressed that it would be desirable to work toward estimates of weekly average figures rather than of figures as of Wednesday report dates, in the hope of obtaining more reliable projections.

Mr. Erickson reported on economic conditions in New England, noting that some of the directors of the Boston Bank at a meeting earlier this week presented relatively optimistic comments regarding placing of orders by department stores. He also stated that new automobile sales in New England during January were substantially larger than in January of 1953. While these factors appeared favorable, Mr. Erickson noted that there were several depressed textile areas in New England and that a very unfavorable situation existed for potato growers in that area.

Mr. Sproul said that the situation appeared to be one in which business indicators were continuing to go down while the confidence of the business community on the business outlook was going up. This, he felt, might be due in part to the fairly unanimous opinion that this was an inventory adjustment that was taking place, gradually and smoothly, and that it may work itself out by summer and be followed by an upturn. Mr. Sproul emphasized that it was difficult to know whether the pick-up which was widely expected around mid-year would take place or whether the decline in activity might be accelerated. So far as open market operations were concerned, Mr. Sproul felt that existing conditions called for continuation of the program for making credit readily available and actively promoting ease in the credit situation.

Chairman Martin inquired whether other members of the committee felt there should be a change in the over-all policy being pursued, and all of the members of the committee agreed that the existing general objective of promoting growth and stability in the economy by actively maintaining a condition of ease in the money market should be continued for the present.

At Chairman Martin's request, Mr. Rouse then reported on operations in the System account since the last meeting of the committee and on recent developments in the market for Government securities. A written report covering open market operations during the period February 2 to February 11, 1954, inclusive, had been distributed before this meeting. At this time, Mr. Rouse reviewed a supplementary report covering commitments executed on February 15 and 16, 1954, on which days total holdings of United States Government securities by the System decreased $79.9 million due to a reduction in the amount of short-term securities held under repurchase agreement as the net result of purchases of $52 million and resales of $131.9 million. Mr. Rouse stated that he had contemplated selling some bills from the System account this week, if the expected rise in float developed and there was a reduction in the Treasury's balance, realizing that if that were done it probably would be necessary to buy some back within the next few days. However, existence of repurchase agreements had precluded sales of bills yesterday. In connection with his comments on factors affecting the market, Mr. Rouse noted that it would probably be necessary for the Treasury to secure at least $4-1/2 billion additional cash in order to carry it to the middle of June of this year, and that much of this probably would have to come from the banks. The Treasury currently is considering offering a June tax obligation, to be dated March 22 and to mature about June 23, to raise a substantial part of the new money it needs. In response to a question from Mr. Evans regarding the attitude of people in the Government securities market, Mr. Rouse stated that there was now a general belief that the policy of the Federal Reserve was one of making reserves available to meet legitimate needs and that there was no evidence of a belief that the System was attempting to make a market for Government securities.

Following discussion, upon motion duly made and seconded, and by unanimous vote,

> transactions in the System account during the period February 2 to February 16, 1954, inclusive, were approved, ratified, and confirmed.

Chairman Martin then asked for comments with respect to the procedure that should be followed in carrying out the policy of active ease so that the Manager of the System Account would have the benefit of views of the committee members in this respect.

Mr. Mills made a statement during which he raised the question whether, at this particular time when the market was in a very fluid state and there were few guide posts to which operations for the System account could be anchored in the immediate future, the committee should look to the level of the rate on Treasury bills as something of a guide to its operations in pursuance of the policy of active ease.

This question was discussed and it was the consensus of the members of the committee that, despite the difficulties that had been experienced in smoothing out periods of undue ease or tightness in recent weeks, it would not be desirable to gear operations to the bill rate. It was felt that, so long as the policy was one of active ease and the market knew that to be the committee's policy, the market would understand that the committee intended to supply reserves to meet the needs of private demands of the economy and demands of the Treasury on the money market and would not be misled by swings to more ease or greater tightness within periods of a few days. It was suggested that, while the bill rate was the rate most accurately reflecting the judgment of the market, the committee should think in terms of the market as a whole and in terms of the economic situation and whether operations for the System account were supplying the reserves to meet the legitimate needs of the economy for seasonal and growth purposes, recognizing that it was not possible to project accurately the amounts of reserves that would be needed in the market in any given future period.

In a discussion of the directive to be issued to the Federal Reserve Bank of New York, it was suggested that the third paragraph of the directive be modified to delete the reference to 2-1/4 per cent Treasury certificates maturing February 15, 1954 and to substitute a reference to Treasury securities maturing within one year. The effect of this change would be to direct the Federal Reserve Bank of New York to sell 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.

> 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 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.

Mr. Rouse stated that the Treasury was considering issuing to the Federal Reserve Banks a piece of paper which would represent substantially the total holdings of each issue in the System open market account rather than, as at present, issuing large numbers of regularly available Treasury obligations to cover the System's holdings of various securities acquired in the open market. Mr. Rouse noted that this would greatly reduce both handling and storage problems with respect to the Treasury securities held in the System account and also would reduce work connected with receiving interest payments on the various obligations. He said that this matter had been under discussion from time to time in the past and that the Treasury hoped to work out in the near future a procedure to make it effective.

Mr. Rouse then commented on the practice of setting rates on bankers' acceptances. (Under the action taken by the Federal Open Market Committee at its meeting on June 19, 1952, the minimum rate on Federal Reserve purchases of prime eligible bankers' acceptances is set by the Committee, and the effective buying rate is specified by the Manager of the System Account.) Mr. Rouse stated that the most recent acceptance survey showed $586 million of bankers' bills outstanding of which accepting banks held a total of $195 million. He expressed the view that the rigid practice that had been followed for many years of having the rate on such acceptances conform to the discount rate did not seem to him to be desirable since acceptances fundamentally were open market instruments and had the attributes of Treasury bills. Mr. Rouse also noted that at the present time financing under merchant bills expressed in sterling could be obtained for less than bills expressed in U. S. dollars. He was raising the question for consideration, he said, with the thought that the executive committee might wish to recommend to the full Committee that the minimum rate on bankers' acceptances be lowered in order to provide the scope to facilitate a downward move in rate so that it might become a market rate which would reflect the demand and supply forces.

Such a movement should work closer to the Treasury bill rate. Mr. Rouse also noted that if this were done there might be an increase in the supply of bankers' bills outstanding and there might be some effect in stimulating and facilitating financing of foreign trade.

Chairman Martin suggested that it would be desirable to have Messrs. Szymczak and Mills study this matter, that Mr. Sproul and Mr. Erickson do likewise, and that all of them feel free to call upon Messrs. Riefler and Rouse for such assistance as they might give, with the thought that they be prepared to discuss the question and perhaps submit pertinent material at the next meeting of the full Committee.

This suggestion was approved unanimously.

The date for the next meeting of the committee was set for Wednesday, March 3, 1954.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary