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, March 16, 1954, at 10:50 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Robertson
Mr. Szymczak
Mr. Williams
Mr. C. S. Young, Alternate for Mr. Sproul

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. R. A. 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unanimous vote, the action of the members of the executive committee on March 5, 1954, authorizing the transmission of unpublished information relating to transactions in Government securities during the calendar years 1952 and 1953, pursuant to authorization by the Federal Open Market Committee, for the use of a member of the Joint Committee on the Economic Report, was approved, ratified, and confirmed.

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 during the period March 3 to March 11, 1954, inclusive. At this meeting there was distributed a supplementary report covering commitments executed March 12 to March 15, 1954, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse commented upon operations during the period covered by the reports, stating that there had appeared to be ample free reserves in the market. Bidding for Treasury bills to be issued during the current week had been with a view to replacing those maturing, feeling that, in view of the uncertain outlook for reserves in the coming week, it would be easier to carry on operations under the general policy of active ease if that were done rather than to allow any bills to run off. Mr. Rouse noted that while there were generally free reserves thoughout the country, the situation at central reserve city banks frequently varied from that in other cities, and he attempted to gauge his operations in terms of the over-all need rather than just the situation of New York City and Chicago banks. The actual amount of repurchase agreements had been relatively small, he said, and such agreements had been used with a view to helping dealers over weekends.

Upon motion duly made and seconded, and by unanimous vote, transactions in the System open market account for the period March 3 - March 15, 1954, inclusive, were approved, ratified, and confirmed.

At Chairman Martin's request, Mr. R. A. Young made a statement with respect to recent economic and financial developments substantially as presented in a staff memorandum dated March 12, 1954, copies of which were sent to the members of the committee before this meeting. Mr. Young's summary of the situation was that statistical evidence indicated that the decline in economic activity was continuing and that average prices were remaining relatively stable. While there were some signs of a slowing down in the rate of decline, about all that could be stated with assurance was that activity was still going down, primarily because of inventory liquidation and continuing reductions in defense buying. The rate of decline has not accelerated, however, and may even have tapered off.

Mr. C. S. Young said that in the Chicago area sales of new automobiles and farm equipment have picked up somewhat and there has been evidence of a feeling of confidence on the part of businessmen in that area. In Mr. Young's opinion, this feeling of confidence was greater than was warranted. While the situation is somewhat better than it was, Mr. Young's view was that underlying conditions were still worse than the statistics indicate.

Mr. Williams thought that economic activity in the Philadelphia district was perhaps somewhat better maintained than in many other parts of the country, although he cited figures to indicate that most economic indicators were below levels a year ago. With respect to loans, there had been a slight pick-up since the lows recorded during January and February of this year but current loan volume was still substantially below the peak levels reached during last November and December.

Mr. Thomas commented on recent credit developments, stating that total loans and investments declined during February although not quite as much as during the same month a year ago. Business loans and consumer loans were down more while agricultural loans increased more than a year ago. Banks reduced holdings of Government securities in both years, reflecting strong corporate demand for short-term securities at this season, but this year they increased their holdings of non-Government securities. Total deposits declined as is usual at this time of year, with a somewhat larger decrease in privately held deposits and currency than in February last year. In the first two report weeks ending in March, loans increased less than in the same period last year and so did deposits. As to projections for the next few weeks, Mr. Thomas referred to a table showing an estimated pattern of reserve changes, stating that while the next two weeks were subject to unusually wide margins of error because of Treasury operations, it appeared that this would be a period of ease; for the next month or six weeks, free reserves might be expected generally to exceed $350 million and might range as high as $700 million at times.

Mr. Rouse said that the New York Bank's estimates of the reserve position of banks were similar to those prepared at the Board for the next few weeks, noting that a variation of as much as a half billion dollars could easily occur between the projected figures and actual figures during the immediate future as a result of tax collections and other factors related to Treasury operations. He also referred to the volume of commercial paper, stating that during January there were at least three reductions in the rate on such paper, and that during February the volume of commercial paper outstanding rose $80 million to a total of $700 million, the highest reported over a period of some twenty-five years. Mr. Rouse stated that a Chicago firm had come into the commercial paper market recently and borrowed $25 million for a period of 60 days for use in connection with tax payments. He also noted that on the basis of reports from savings banks, funds available for mortgage lending continued at a high level, and commitments were being made in a sustained volume. However, the actual supply of mortgages currently being absorbed by the savings banks is relatively low and, as a result, these institutions have had a supply of longer-term funds available for investment in Government securities.

Chairman Martin raised the question whether the members of the committee felt that the policy under which the committee was operating, that is a policy of active ease, was appropriate to the present situation or whether it should be modified. All of the members of the committee agreed with the view that the policy currently being pursued was wise and appropriate under existing circumstances.

In response to a question from Chairman Martin, Mr. Rouse stated that he felt the money market was easier than appeared on the surface. Banks were perhaps a little tighter in their lending policies than a year or two ago, Mr. Rouse said, but this was for reasons not related to the supply of reserves; rather, it reflected the fact that many banks presently hold about all of the consumer credit and, in some cases, all of the mortgages that they choose to take into their portfolios. This attitude may have been bolstered by criticism of their credit policies from supervisory agencies.

Chairman Martin recalled that at the meeting of the full Committee on March 3, 1954 there was some discussion of the desirability of narrowing the gap between discounts and excess reserves so as to have a lower margin of free reserves and he suggested that there be a discussion of this point.

Mr. Mills was under the impression that the committee might not be best advised to work toward any narrowing of the margin between discounts and excess reserves, as had been done during the last two weeks. This involved going in and out of the market and the Manager of the System Account had bought and sold bills to trim the situation up. This raised the question in Mr. Mills' mind whether the market fully understood this type of operation. His impression was that the market handling had encouraged a desirable stability in interest rates, both at the short end and at the long end, and that that had given investors a chance to take stock of their position in terms of the interest structure that might exist. Mr. Mills felt that this had paid off in that the lower interest structure had been accepted by the financial community. There certainly had been an adequate amount of free reserves available to the banks during this two-week period, Mr. Mills said. It was evident that it was the intent of the account that this situation continue. After commenting somewhat on statistics of bank credit, interest rates, and investments during recent months, Mr. Mills presented the question whether, even though banks now had ample reserves for making loans, there was a situation that might warrant taking a dramatic step at this juncture to encourage credit extensions. Although banks seem to have accepted the lower interest rate structure, if the System were to dramatize to them that there is an abundance of reserves it might induce the same stimulus which inadvertently occurred in January of this year when sloppiness in the market was a factor that caused banks and others to make additional investments in securities. A dramatic move by the System might bring a general understanding on the part of the financial community that this is a type of economic and financial operation where the banks reasonably could anticipate a further lowering of interest rates.

Mr. Rouse stated that operations for the System account during recent weeks had been designed to prevent an accumulation of excess reserves which would be carried over weekends, and thus result in quite a "sloppy" reserve position. Similarly, an effort had been made to avoid a deficiency in reserves that had to be carried over the weekend. Speaking more generally regarding Mr. Mills' comments, Mr. Rouse said that the present seemed to be a period when the economy was on something of a plateau. The question was whether credit policy should not remain substantially as it is until the economic outlook had cleared rather than to inject something in the way of a dramatic action in the financial market. As Mr. Thomas had indicated, despite the obscurities in projections of the reserve position of banks, the situation in the money market during the next few weeks would probably work out to be quite easy. Mr. Rouse also said, in response to a question by Chairman Martin, that he had had no specific level of free reserves in mind in carrying on operations, that his thinking and his discussions with Mr. Thomas had indicated that if there were to be any optimum figure it would be something like $250 to $300 million of free reserves, but that the test was to have an adequate amount of reserves which would "grease the way" for credit extensions. In response to Chairman Martin's question as to whether Mr. Rouse had had any thought that operations might be such as to reduce free reserves to zero, Mr. Rouse said that he had had no such thought at this point, that if any such thing happened it would be the result of an unforeseen development.

Mr. Robertson felt that the economic picture as presented at this meeting did not call for any drastic action but that it did call for maintaining what heretofore had been the amount of reserves called for under the policy of active ease. His thinking was that free reserves should be somewhere between $300 and $500 million under present circumstances (including the level of borrowings), that anything below that would be too tight and that anything above would be too sloppy. He was not opposed to operating in and out of the market in order to secure this level; on the contrary, he felt that the committee should so conduct its operations. He realized the difficulty of attaining any particular level of reserves at this period but felt that it would be well to have in mind a figure of something like $400 million of free reserves for the next two weeks, understanding that at any particular time actual free reserves might run $100 million more or less than this figure.

Mr. Rouse stated that it should be borne in mind that the figure of excess reserves for country banks was one thing, that to a lesser degree figures of excess reserves for city banks were significant in indicating the general reserve position of the country, and that in the case of central reserve city banks the figures could easily be misunderstood. There might be a localized situation at central reserve city banks which made it look as though there was a shortage of reserves when, in reality, there was an easy reserve situation at banks over the country generally. Taking the country as a whole, Mr. Rouse felt that currently there was a fairly easy reserve situation and estimates of both the New York Bank and the Board indicated that this probably would continue during the next few weeks. In response to a question from Mr. Robertson, Mr. Rouse said that he would feel that the figure of somewhere between $300 and $500 million of free reserves would fit into the concept of what would make for active ease during the next two weeks.

Mr. C. S. Young saw no reason for any change in open market operations. He felt that there would have to be something more than a $250 million level of free reserves to push the larger city banks into longer term investments, but he had no suggestion for taking steps at this time. Mr. Young reiterated the view that business is not as good as it seems to be on the surface.

Mr. Williams stated that he could see no necessity for any dramatic move at the present time, and Mr. Szymczak felt that operations should be continued just about as they have been recently.

Chairman Martin stated that it appeared to be the consensus that operations should be continued as at present with the understanding that if there were to be error it should be on the side of ease, and there was agreement with this statement.

Chairman Martin inquired of Mr. Rouse regarding the study of bankers' acceptances referred to at the meeting of the Federal Open Market Committee on March 3, 1954.

Mr. Rouse stated that he had contemplated suggesting to the dealers that the acceptance rate was out of line but in view of comments to the effect that the Federal Reserve was exerting pressure on the prime lending rate he felt it would be desirable not to initiate such suggestions for the time being. If and when the committee was ready to take some action in connection with acceptances, Mr. Rouse felt that should be done by indicating that it was willing to buy acceptances for the System account.

Mr. Riefler stated that in connection with the general proposal for increasing the functioning of the acceptance market, the staff had been working on a memorandum which would give the experience of the Federal Reserve System in handling acceptances from the time the System was organized. The memorandum would include a discussion of the rate structure formerly used and would attempt to evaluate the extent to which such rate structure was appropriate to today's situation. Mr. Riefler felt the memorandum would be ready for distribution before the next meeting of the executive committee, and he expressed the view that because of the importance of the proposal for building up the acceptance market, the executive committee might wish to refer the matter back to the full Committee.

There followed a brief discussion of when the next meeting of the executive committee should be held, particularly whether itshould be during the week beginning March 29 or during the week beginning April 5, and it was agreed that no date for the meeting should be set at this time but that Chairman Martin would discuss with Mr. Sproul, who was unable to attend this meeting, the date to be set.

Chairman Martin then referred to the discussion at the meeting of the executive committee on March 3, 1954 at which time he mentioned an oral request received from Mr. Fink, Staff Director of the Committee on Banking and Currency of the House of Representatives, who sought to obtain for the use of Representative Patman information showing transactions by the System open market account with individual dealers in Government securities and the amounts of commissions paid to each dealer. He stated that it appeared that the draft of letter which had been prepared had been superseded by a written request from Representative Patman under date of March 10, 1954, who asked for additional information regarding commissions paid on transactions for the System open market account but did not ask for transactions with individual dealers. In the course of a discussion of this request, Chiarman Martin suggested that Mr. Rouse be requested to prepare a draft of letter in response to the inquiry from Chairman Patman for the consideration of the executive committee.

This suggestion was approved unanimously.

Mr. Rouse stated that no change would be needed in the directive to be issued to the Federal Reserve Bank of New York.

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 $1 billion;

(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.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary