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, August 3, 1954, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Leedy, Alternate
Mr. Vardaman, Alternate
Mr. C. S. Young, Alternate

Mr. Mills, Member of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. R. A. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account (latter part of meeting)
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York
Mr. Miller, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Chairman Martin suggested that in view of the fact that Mr. Rouse had been delayed in reaching the meeting, Mr. Ralph A. Young present the economic and credit review at this point.

Mr. Young summarized recent economic developments in substantially the terms presented in a staff memorandum dated July 30, 1954, copies of which were distributed before this meeting. Mr. Young said that economic conditions recently had been characterized by over-all stability in the moderately reduced levels of activity reached in mid-spring. International tensions continued to be a source of uncertainty in business expectations and, while important cyclical adjustments had taken place, a formation of business forces that would indicate cumulative revival in activity was not yet clearly evident. Mr. Young cited various favorable features in the situation including improved levels of retail sales, a general strengthening in the automobile market, continued high levels of construction, relative steadiness of industrial production and total employment with a leveling off in unemployment, further reduction in business inventories, prospects for a pick-up in defense orders for hard goods, buoyancy in stock market trading and prices, ready availability of credit at low interest rates and liberal repayment terms, continued strength in foreign economic developments, and a cautious optimism in press and private business outlook commentary. On the other hand, Federal defense outlays are scheduled to decline further, hiring rates at factories continue very low and lay-off rates very high, dry weather and drought conditions are reducing farm incomes in some areas, and business failures are continuing at relatively high levels. Mr. Young also noted that prices of industrial products had not been reduced for the purpose of maintaining sales and clearing inventories as much as had been customary in other adjustment periods and expressed the view that this might be a deterrent to recovery.

With respect to the credit situation, Mr. Young commented on the Treasury cash position and on loans, investments, and deposits of reporting member banks. He noted that free reserves of member banks averaged close to $800 million during July, although there had been a substantial reduction in Federal Reserve holdings of Government securities toward the end of July through bill run-offs and sales. Mr. Young stated that the reduction in member bank reserve requirements during the current week ending August 4, and the resulting sharp decline in required reserves—perhaps as much as $800 million—would be reflected in a sharp increase in free reserves even after allowance for run-off of System-held Treasury bills maturing this week. Mr. Young felt that free reserves might be drawn down to around the $800 million level during the week ending August 18 if bills now held in the System account were permitted to run off.

In response to Chairman Martin's question, Mr. C. S. Young stated that the review for the country as a whole portrayed generally the situation in the Chicago Federal Reserve District. He went on to say that the lack of rainfall was causing some crop damage in the Chicago District but that it did not appear that the damage would be extensive or of major proportions in the over-all picture.

Mr. Leedy commented on economic conditions in the Kansas City Federal Reserve District along the line that retail sales were reasonably satisfactory and that other factors in the business situation were comparable to the conditions outlined nationally by Mr. Ralph Young. Mr. Leedy stated that in some limited areas substantial damage was being caused by the lack of rainfall. For example, the corn and soy bean crops were being damaged but the wheat crop had been largely harvested prior to the recent hot dry spell. On the whole, Mr. Leedy felt that notwithstanding the drought the picture for the economy in the Kansas City District was not grim.

Chairman Martin inquired whether any of the members of the committee felt that there should be a modification in the general policy being pursued, or the emphasis in that policy as carried out through open market operations. In response to a question from Mr. Vardaman, Chairman Martin said that the existing program of the executive committee would contemplate that the bills held in the System account which are to mature during the next two weeks would be permitted to run off and Mr. Riefler stated that in accordance with recent discussions it might also be possible to anticipate run-off by advance selling of bills from the account.

At Chairman Martin's request, Mr. Riefler commented briefly on a tabulation showing an estimated pattern of reserve changes by weeks during August and, during a discussion of the tabulation, Mr. Vardaman expressed the view that no action should be taken by the executive committee which would be interpreted by the money market or by the public as moving in the direction of tightness. He said he recognized that, since reserve requirements had been reduced, it was feasible for the System to operate with a lower level of free reserves than seemed to be desirable before that time. However, Mr. Vardaman felt it advisable to lean on the side of plenty of free reserves at least until early fall, largely because he could see nothing in the picture to indicate an upsurge in business later on this year.

Chairman Martin said that he hoped the System would not permit a sloppy condition to develop in reserves in the wake of the $7.5 billion Treasury refunding announced on Friday, July 30, 1954, which apparently was turning out quite successfully. He agreed that the System should not give any indication that it contemplated tightening the market but, at the same time, he felt it was important not to have excessive amounts of funds floating around.

Mr. Gaines stated, in response to a question from Chairman Martin, that the projections of free reserves during the next two or three weeks which had been prepared at the Federal Reserve Bank of New York were substantially in accord with the projections presented in the tabulation prepared in the Board's offices.

Mr. Vardaman then inquired what figure of free reserves the executive committee had in mind.

Chairman Martin responded that when the matter was last discussed in terms of figures, a range of $400-700 million was mentioned but that these were not fixed limits and it was recognized that it might not be feasible to hold free reserves to that range. His own view was that it would be preferable to aim at having a volume of free reserves on the low side during August with a view to moving up the volume during September. Chairman Martin felt that any easing that the System might attempt to do in September would be rather useless if a sloppy condition existed during the month of August.

Mr. Vardaman stated that he, too, would like to avoid a sloppy condition in the market and that he would favor trimming down the amount of free reserves, if that could be done without tightening the situation during August, with the thought of easing the situation during September.

There was agreement with the suggestion that the existing program should be continued along the lines indicated by the foregoing discussion with the understanding that, in an effort to hold down the level of free reserves during the period until the next meeting of the committee, maturing bills would be permitted to run off and, in addition, bills might be sold from the account to anticipate such run-off if that proved to be feasible.

At Chairman Martin's request, Mr. Miller then made a statement with respect to activity in the Government securities market this morning.

Mr. Leedy stated that he assumed the System open market account would exchange its holdings of maturing certificates of indebtedness for the new issue of 1-1/8 per cent certificates of indebtedness currently being offered by the Treasury, to mature August 15, 1955.

Chairman Martin responded by stating that it was the accepted policy in periods of Treasury refundings to exchange any of the maturing or called securities held in the System account for the exchange offering having the shortest maturity.

At this point Mr. Rouse joined the meeting.

> 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 July 20, 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 during the period July 20 to July 29, 1954, inclusive, and at this meeting there had been distributed a supplementary report covering commitments July 30 to August 2, 1954, inclusive. Copies of these reports have been placed in the files of the Federal Open Market Committee. In commenting on current developments, Mr. Rouse stated that the Treasury refunding had been the main development during the past few days and that the new issue appeared likely to cause a minimum of churning in the market. He felt there was every reason to expect a very satisfactory subscription to the securities offered by the Treasury. Other than the Treasury financing, Mr. Rouse said that recently the market had experienced about as quiet a period as had occurred in a long time. This was not entirely due to vacations, he said, but in part was a reflection of the atmosphere in the business economy. He felt that this situation spoke well for the whole picture and commented that, in so far as the System account's part was concerned, there had been enough money in the market to go around and yet not so much as to cause a sloppy condition. Mr. Rouse said there was beginning to be some comment to the effect that it was clear that the System did not wish to have excessive ease in the market.

Mr. Szymczak inquired as to what Mr. Rouse's attitude would be toward permitting securities to run off from the System account during the next two weeks.

Mr. Rouse responded that he thought it would be the plan to make some sales of securities if opportunity developed, as well as to permit run-off of maturing securities. He also expressed the hope that there could be some experimenting along the lines suggested by Mr. Robertson at the preceding meeting by effecting some transactions for cash delivery. Mr. Rouse stated that he had informed the dealers that the System account would be experimenting with some cash transactions, that it would be doing this for its own purposes, but that it was his view that these purposes would be in the interest of the market. He added that this information had been presented in such a way as not to create an impression of any significant policy change.

In response to Chairman Martin's inquiry regarding the directive to be issued to the Federal Reserve Bank of New York, Mr. Rouse stated that he knew of no reason for changing the limits in the existing directive.

> 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 $750 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.

It was agreed that the next meeting of the executive committee would be held on Tuesday, August 24, 1954, at 10:45 a.m.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary