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, September 8, 1954, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Robertson
Mr. Szymczak
Mr. Young, Alternate

Mr. Vardaman, Member of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. R. A. Young, Associate Economist
Mr. Carpenter, Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. D. C. Miller, Economist, Division of Research and Statistics, Board of Governors
Mr. Roosa, Assistant Vice President, Federal Reserve Bank of New York
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 August 24, 1954, were approved.

Before this meeting there had been sent to the members of the committee copies of a report prepared at the Federal Reserve Bank of New York covering open market operations during the period August 24, 1954 through 12 o'clock noon on September 3, 1954, and at the meeting copies of a revision of the first two pages of that report and copies of a supplemental report covering commitments executed between 12 noon on September 3 and the

close of business on September 7, 1954, were distributed. Copies of the reports and the revised pages have been placed in the files of the Federal Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period August 24 to September 7, 1954, inclusive, were approved, ratified, and confirmed.

Mr. R. A. Young commented on recent economic developments as outlined in a memorandum dated September 3, 1954, which had been sent to the members of the committee before this meeting, and Mr. Thomas discussed the current situation with respect to short-term interest rates, the cash position of the Treasury, and bank credit and reserves as outlined in the last four pages of the memorandum. He also stated that he had just received a telephone report on conditions in the money market this morning which indicated that the situation was easier than was thought yesterday that it might be, but that it was the intention of the Federal Reserve Bank of New York to renew maturing repurchase agreements should such renewal be requested by any of the dealers.

During Mr. Thomas' statement, members of the committee were furnished with copies of a tabulation showing the estimated pattern of reserve changes during the period ending October 6, 1954, which indicated that in the absence of further System operations free reserves might increase to an average of about $750 million during the week ending September 8, $875 million during the week of September 15, $1,400 million during the week ending September 22, after which the average would decline to around $840 million during the weeks ending September 29 and October 6.

In connection with the review of the economic situation, Mr. Sproul referred again to the high level of activity in the housing field and to the problem that that might hold for the future. He also said that the decline in business loans during the current year was largely accounted for by the New York City banks which in turn was an indication that corporations were using the proceeds of securities issues to repay bank loans and were borrowing in the form of commercial paper. In response to an inquiry from Chairman Martin, Mr. Sproul also said that the New York banks hoped that business loans would rise during the remainder of this year but did not anticipate any substantial increase.

Turning to the question of open market operations during the period before the next meeting of the executive committee, Mr. Sproul referred to the understanding at the meeting of the committee on August 24 and stated that because of the maldistribution of free reserves and the slowness with which reserve funds flowed from country banks to the city banks it had not been possible to work down the level of free reserves as much as had been discussed. He also said that on the basis of reports at this meeting, which were in substantial agreement with analyses made by the Federal Reserve Bank of New York, and which indicated a continuing sidewise movement in the economy with a possible modest upturn in the months ahead but with no indication of a strong upsurge, it would be his view that existing open market policy should be continued. That would involve, he said, some consideration of the very large fluctuations in free reserves during the next few weeks when the level might increase by an

amount in the neighborhood of $500 million and then decline by about the same amount during the following week. He thought it should be the purpose of the committee to moderate the effects of such a wide swing without, however, attempting to offset the movement completely particularly because of the temporary nature of the change.

Mr. C. S. Young agreed with Mr. Sproul's statement, adding the comment that the banks in the Chicago area anticipated that their business loans would increase during the remainder of the year and that the decline of such loans in the area had been the result of financing companies financing their needs in the form of commercial paper and selling their obligations to foreign investors.

Following some discussion of the location of banks holding free reserves, Mr. Szymczak expressed the view that the policy now being followed under instructions from the full Committee should be continued since there was nothing in the picture calling for a change. He recognized that the maldistribution of free reserves caused some difficulty but felt that the problem had been met by supplying reserves to ease the tight situation in the New York money market.

Mr. Vardaman referred to the view expressed by Mr. Mills at the meeting of the executive committee on August 24 and to his own statement at that time (made in the light of the consensus that there should be no change in open market policy) that he would regard $600 million of free reserves as a minimum figure and that he would prefer $800 million. He also referred to Mr. Sproul's statement at that meeting that it had been agreed at the meeting on August 3 that an attempt should be made to get

back into the lower level of the previously agreed range of free reserves. He said he did not object to that understanding, that it would not be possible to correct the maldistribution of free reserves without a controlled market, that it appeared that country banks were going to operate with a higher level of free reserves, and that the policy of the System would have to be determined in the light of that situation.

Mr. Robertson stated that he had been somewhat disturbed when reading the minutes of the meeting on August 24 and the suggestions that the market be eased somewhat to meet the then existing situation. He did not agree with the comments made in the meeting as to the desirability of any easing action and did not see any justification for any change in the existing policy. It was his view that the executive committee should continue to move toward the bottom of the range of $400-700 million of free reserves rather than toward the top, that no attempt should be made to offset entirely the fluctuations in the volume of free reserves but only to moderate the effects on the market even if that did result in moderately higher bill rates. He agreed that developments in the housing industry, with the plethora of funds available, might cause difficulty in the future. He did not believe it would be possible to maintain any volume of free reserves in the central reserve city banks for the reason that they invest immediately any available funds. Therefore, he would continue the policy of the last several weeks of moving toward the lower level of the agreed range of free reserves rather than toward the higher level of the range.

Chairman Martin was in general agreement with Mr. Robertson's statement and said that while he had not followed the market closely during the time he had been away he had been in touch with a number of dealers who had complained about the state of the market, but that he thought the committee should be careful about being influenced by the statements of the dealers in these situations and should not regard the shifts that were taking place as a basis for a change in policy. He agreed with the statement made by Mr. Vardaman and also with a comment by Mr. Sproul as to the degree of fluidity that could be expected in the market. He felt it was important to keep in mind the limitations of any easy money policy and what could be accomplished by it and not to be unduly influenced by fluctuations in the market. He agreed with the policy that had been followed and was of the opinion that the committee should keep alert and watchful of further developments.

It being agreed that no change should be made in the existing policy, Mr. Sproul stated that no change was called for in the instructions to be issued by the committee 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 $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.

One of the items on the agenda for this meeting was a telegram addressed to Chairman Martin under date of September 1, 1954 by Congressman Patman reading as follows. Shortly after the wire was received it was learned that Congressman Patman had given it to the press:

Board of Governors Federal Reserve System prices long-term Government bonds were bid below par yesterday creating dangerous situation similar to one in early part of 1953 also yesterday short-term Government rate was permitted by Board of Governors to be highest in five months. I urge Open Market Committee to make sure that these long-term bonds do not sink below par again as it just helps crap

shooters in Government bond market at terrific expense to people generally. If you will keep these bonds above par as you are authorized by Congress to do and which will not cost the Government one penny and will not cost any individual or corporation one penny it will save us from the disastrous consequences of another hard money high interest policy. According to this morning's reports member banks of New York Federal Reserve District made profit of thirty seven per cent more after taxes first half of 1954 than during similar period 1953 these profits accounted for by $51,500,000 on securities while in corresponding period in 1953 the banks had losses of $16,100,000 in securities transactions best gain for this district due largely to forty per cent increase in net profits of the central reserve New York City banks reported that member banks of District enlarged their capital gains on sales of securities as a result of portfolio switching operations in 1953 this switching in 1953 established losses and depressed profits while the switching in the rising market in 1954 established gains and increased profits my belief that if Congressional investigating committee will investigate and determine windfall profits made by hard money high interest policy of 1953 and present policies, the huge amounts of windfall profits in title 608 housing will sink into insignificance in comparison.

I am insisting that such an investigation be made either by the Senate or House Banking and Currency Committee. My sincere hope that Board of Governors composing majority of Open Market Committee will protect the public interest by keeping long-term Government bonds above par. Since demand for business loans is considerably reduced in New York area it appears that these banks are permitted by you to make up their loss of profits in business loans by getting an increased rate on short-term securities my opinion the people and Congress will not tolerate another depression caused by Board of Governors permitting intemperate manipulations of Government bond market by New York banks.

Chairman Martin stated that it was his view that, since the telegram had been made public, no answer was called for.

Mr. Vardaman did not think that the telegram should be a cause for concern and agreed with Chairman Martin that, in the circumstances, it should not be answered.

In response to an inquiry by Chairman Martin whether the members of the committee agreed that no reply should be made to the telegram, Mr. Sproul stated that the figures quoted in the wire as to bank earnings were correct but that the conclusions drawn therefrom were entirely wrong. While he did not know what the practice in Washington would be, if such a wire had been addressed to him he would answer it, notwithstanding the fact that it might have been sent for political or personal reasons. While it might be possible, he said, to twist the language or a reply to suit a purpose the same could be done with the fact that no reply was made.

Chairman Martin stated that, since the wire was released to the press at the same time it was sent, he would have no hesitancy to say if the question came up that the points covered had been raised before and had been answered in testimony before committees of the Congress. In response to a reference by Mr. Sproul to the implication in the telegram that the profits made by banks were based on a "rigged" market which had been facilitated by System policy, Chairman Martin stated that that was a matter which the banks themselves might wish to answer. Mr. Sproul made the additional comment that, if there were any basis for criticism of the profits made by banks on securities transactions, it was to be found in the tax laws and not in monetary and credit policy.

Mr. Vardaman stated that the views held by Mr. Patman with respect to the desirability of a controlled market and the maintenance of Government securities at par were held by a number of other Congressmen

and Senators, and that the System should be prepared to defend its policies should the occasion arise.

Governor Robertson expressed the view that while under ordinary circumstances an inquiry from a member of Congress should always be answered, inasmuch as Congressman Patman gave his wire to the press at the same time it came to the Chairman no response was called for.

> In a further discussion, during which Mr. Vardaman raised a question as to the desirability of the present policy of publishing bank earnings, it was the consensus that no reply to the wire from Congressman Patman should be made.

It was agreed that the next meeting of the executive committee should be held following the meeting of the full Committee on Wednesday, September 22, 1954.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary