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, October 5, 1954, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Robertson
Mr. Szymczak
Mr. Williams

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

Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, 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, approval was given to the action of the members of the executive committee on October 1, 1954, in increasing from $750 million to $1 billion the limitation contained in paragraph (1) of the committee's directive to the Federal Reserve Bank of New York dated September 22, 1954, relating to transactions for the System open market account.

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 September 22 to September 30, 1954, inclusive, and at this meeting a supplementary report covering commitments October 1-4, 1954, was distributed. Copies of both reports have been placed in the files of the Federal Open Market Committee.

In a brief comment on the reports, Mr. Sproul noted that the Manager of the System Open Market Account was trying to make them deal more completely with Federal Reserve policy and relatively less with day-to-day fluctuations in the Government securities market.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period September 22 to October 4, 1954, inclusive, were approved, ratified, and confirmed.

Mr. Young presented a review of recent economic developments concerning which a memorandum had been sent to the members of the committee under date of October 1, 1954. In summing up the situation, Mr. Young said that at the beginning of October observers were carefully searching the economic scene for signs of change from the conditions of high level doldrums which had prevailed all year, but that very few could detect convincing signs that general revival was under way or that recession was being renewed. Moreover, many observers could see little sign of substantial change for a considerable period ahead, it being the predominant view of a group of business economists meeting in New York a short time ago that business activity and commodity prices would remain close to present levels during the next year or longer. Mr. Young added a note of caution with respect to accepting this view. Rarely had there been such general agreement that nothing much would happen to the economy or that developments would be offsetting, he said, and while this view might be well founded, its widespread acceptance made it more important than ever to be alert for signs of underlying change.

Following a discussion of Mr. Young's remarks, Mr. Thomas commented on recent developments in the capital markets, on the Treasury's cash position, and on changes in bank credit and reserves. He pointed out that bank loans and investments had increased somewhat and bank deposits had shown a greater-than-seasonal increase since June--a development that conformed to the aims of the monetary policies followed in the period. In connection with his comments Mr. Thomas presented a sheet containing projections of possible bank reserve positions during the next several weeks. He stated that while free reserves of all member banks averaged around $800 million during the first three weeks of September, reserve positions became considerably less easy during the week ending September 29. Bank reserve positions were likely to ease considerably in the week ending October 6, largely because of System purchases of Treasury bills already made. Looking ahead, Mr. Thomas felt that, in the absence of further system operations, fluctuations in free reserves during the next three weeks might be of the magnitude of $500 million; their total might range from less than $500 million on some days in the next week to over a billion for a week or more after the middle of October. This suggested consideration of the question whether System operations should be handled on a basis to moderate such wide swings in the volume of free reserves. This might be accomplished through moderate further purchases of bills during the next week followed by sales in the subsequent week or so. The use of repurchase contracts would be an appropriate means of handling temporary fluctuations of this nature.

Chairman Martin suggested that there be a discussion of the program to be followed by the executive committee in carrying on open market operations during the next two weeks. He noted that the understanding of the executive committee at its last meeting was that operations would be directed toward carrying out the full Committee's general policy of active ease and that, without setting any specific figure, a volume of free reserves in the approximate range of $400-700 million would be looked upon as providing the appropriate degree of ease; but that any doubts should be resolved in favor of too much rather than too little ease in the market.

Mr. Sproul said that in the mass of economic information being furnished even in a period of economic doldrums he could discern nothing to indicate that the policy of active ease should be abandoned. On the other hand, he could see no such dark cloud on the horizon as would suggest a need for doing more than the committee had been doing to prevent a decline in economic activity. Mr. Sproul felt that in general between now and the next meeting of the executive committee the policy and program it had been following should be continued. Experience during the past two weeks illustrated the wisdom of not fixing on a specific level of free reserves, he said, adding the comment that at times free reserves in the range of

$500-600 million, if properly distributed, could do as much toward accomplishing an objective as would a much higher level of reserves if they were not properly distributed. The fluctuations in reserves that had occurred recently and that were in prospect because of the System account's responses to actual situations did not need to be taken to seriously, Mr. Sproul thought, if the general policy of active ease was kept in mind. Projections would indicate that while free reserves were at a high level at present there might be a substantial drop within a day or two, perhaps enough to carry the level below the target range of $400-700 million, and in such circumstances it might even prove to be desirable to make further purchases later this week. Over the next two weeks there would be substantial fluctuations in free reserves, but by the end of the period free reserves could be expected to be back around the half billion dollar level and this might therefore be a period for use of repurchase agreements as a means of putting funds into the market on a temporary basis in a manner which would result in their being withdrawn automatically.

Mr. Szymczak said that nothing had been revealed with respect to reserves or the economic situation that indicated a change in the general program being followed by the committee. He felt operations should be continued as they have been, having in mind that it might be desirable to supply some additional reserves in the next two weeks if any indications of tightness developed.

Mr. Robertson could see no reason for any change in the program the committee was following.

Mr. Williams said that the projections contained on the sheet distributed by Mr. Thomas indicated considerable fluctuation in the volume of free reserves over the next few weeks and that he felt the committee should be prepared to meet any need for additional reserves or to moderate an excessive volume of reserves. Mr. Williams thought that this might well be done through use of repurchase agreements between now and the next meeting of the committee.

Mr. Vardaman stated that while he was not a member of the executive committee he agreed with the views expressed by Mr. Williams. He also said that he would be glad to have a full discussion of the concept of free reserves and the effect that different levels of free reserves might have in the market. He thought there may have been a maldistribution of free reserves recently and that it would be desirable to have more discussions of this situation.

Following further discussion, Chairman Martin stated that there appeared to be no reason for a change in the current program of operations. There was agreement that operations for the System account would be continued on substantially the same basis as during the past two weeks.

Mr. Sproul suggested that the limitation in the first paragraph of the directive to be issued to the Federal Reserve Bank of New York be reduced to $750 million from the $1 billion authorized on October 1.

> 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.

Chairman Martin referred to a memorandum from Mr. Vest dated October 1, 1954 regarding the legality and history of repurchase agreements of Federal Reserve Banks, which had been prepared and distributed pursuant to the understanding at the meeting of the executive committee held on September 22, 1954. Chairman Martin suggested that this matter be placed on the agenda for discussion at the next meeting of the executive committee, and there was agreement with this suggestion.

Chairman Martin also referred to the action taken by the executive committee at its meeting on September 22 authorizing the Federal Reserve Banks to enter into repurchase contracts at a range of rates of 1-1/4 per cent to 1-1/2 per cent during the period September 22 to October 5, 1954, inclusive, subject to the other terms and conditions of the arrangement for repurchase agreements authorized effective June 24, 1954. He inquired of Mr. Sproul as to whether there was a reason why this authority should be continued.

Mr. Sproul stated that there might be a possible need for use of the authority to enter into repurchase agreements at a range of rates of 1-1/4 to 1-1/2 per cent in view of the fact that adjustments growing out of the recent Treasury financing were not yet complete. He felt that use of the repurchase facility at a rate below that of the discount rate, in such circumstances, would be consistent with open market policy and discount policy and would help to make credit policy effective. He recommended that authority for such contracts at a range of 1-1/4 to 1-1/2 per cent be continued until the next meeting of the executive committee. Mr. Sproul stated that the repurchase authority had not been used since the last meeting, because the management of the account had found that the reserve situation could be taken care of through outright purchases in the open market for either regular delivery or on a cash basis, but this situation may not prevail during the coming two weeks.

Mr. Robertson stated that he had read Mr. Vest's memorandum, that he considered it to be an excellent statement in view of the 30 years' practice of use of repurchase agreements, but that he held views which differed from the memorandum and at a later date would like to present such views for the consideration of the committee. However, he would raise no objection to continuation of the authority granted to the Federal Reserve Banks to enter into repurchase contracts at a range of 1-1/4 to 1-1/2 per cent between now and the next meeting of the committee, with the understanding that his disagreement with this procedure was noted in the minutes.

Thereupon, it was agreed that the existing authority for the Federal Reserve Banks to enter into repurchase agreements at a range of 1-1/4 to 1-1/2 per cent be continued without change until the close of the day of the next meeting of the executive committee.

It was agreed that the next meeting of the executive committee would be held on Wednesday, October 20, 1954, at 10:45 a.m.

Thereupon the meeting adjourned.

Winfield Thurston
Assistant Secretary