A meeting 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, March 3, 1954, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Evans
Mr. Leedy
Mr. Mills
Mr. Robertson
Mr. Szymczak
Mr. Williams
Mr. C. S. Young

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Bopp, Mitchell, Roelse, Tow, and Ralph A. Young, Associate Economists
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

Messrs. Leach, Fulton, and Earhart, Alternate Members of the Federal Open Market Committee

Messrs. Erickson, Johns, Powell, and Irons, Presidents of the Federal Reserve Banks of Boston, St. Louis, Minneapolis, and Dallas, respectively

Mr. Clark, First Vice President, Federal Reserve Bank of Atlanta

Mr. Willis, Financial Economist, Federal Reserve Bank of Boston

Mr. Marget, Director, Division of International Finance, Board of Governors

Mr. Riefler referred to advices of the election for a period of on one year commencing March 1, 1954 of members and alternate members of the Federal Open Market Committee representing the Federal Reserve Banks. He noted that a vacancy existed at the present time in the member to be elected by the Federal Reserve Banks of Atlanta, St. Louis, and Dallas, and that Mr. Bryan, who had been elected an alternate member by those Banks was not present and had not executed the required oath of office. Mr. Riefler stated that all other members and alternate members elected by the Federal Reserve Banks had executed the oath of office, and that it was the opinion of the Committee Counsel that the following members and alternate members were legally qualified to serve:

Allan Sproul, President of the Federal Reserve Bank of New York, with William F. Treiber, First Vice President of the Federal Reserve Bank of New York, as alternate member;

Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

C. S. Young, President of the Federal Reserve Bank of Chicago, with W. D. Fulton, President of the Federal Reserve Bank of Cleveland, as alternate member;

H. G. Leedy, President of the Federal Reserve Bank of Kansas City, with C. E. Earhart, President of the Federal Reserve Bank of San Francisco, as alternate member.

Upon motion duly made and seconded, and by unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1955, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or a Federal Reserve Bank as the case might be they would cease to have any official connection with the Federal Open Market Committee:

Wm. McC. Martin, Jr.	Chairman
Allan Sproul	Vice Chairman
Winfield W. Riefler	Secretary
Elliott Thurston	Assistant Secretary
George B. Vest	General Counsel
Frederic Solomon	Assistant General Counsel
Woodlief Thomas	Economist
Karl R. Bopp, George W. Mitchell, H. V. Roelse, Clarence W. Tow, and Ralph A. Young	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after February 28, 1955.

Mr. Sproul stated that the Board of Directors of the Federal Reserve Bank of New York had selected Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System account and his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairman of the Federal Open Market Committee (who under the provisions of the by-laws is also Chairman of the executive committee) as members and alternate members of the executive committee until the selection of their successors at the first meeting of the Federal Open Market Committee after February 28, 1955:

Members	Alternate Members
M. S. Szymczak J. L. Robertson	James K. Vardaman, Jr. A. L. Mills, Jr. R. M. Evans (To serve in the order named as alternates for Messrs. Martin, Szymczak, and Robertson)
Allan Sproul Alfred H. Williams	C. S. Young H. G. Leedy (To serve in the order named as alternates for Messrs. Sproul and Williams)

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on December 15, 1953, were approved.

Upon motion duly made and seconded, and by unanimous vote, the action taken by the members of the Federal Open Market Committee on February 5, 1954 in reducing the minimum buying rate on prime bankers' acceptances from 2 per cent, as established by the Federal Open Market Committee on March 4, 1953, to 1-3/4 per cent, effective immediately, was approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forthin the minutes of the meetings of the executive committee held on December 15, 1953, and January 5, January 19, February 2, and February 17, 1954, were 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 for the period December 15, 1953 to February 25, 1954, inclusive. At this meeting there was distributed a supplementary report covering commitments executed February 26 to March 2, 1954, inclusive. Copies of the two reports have been placed in the files of the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period December 15, 1953 to March 2, 1954, inclusive, were approved, ratified, and confirmed.

Reference was made to the resolution adopted by the Federal Open Market Committee on November 20, 1936, authorizing each Federal Reserve Bank to purchase and sell at home and abroad cable transfers, bills of exchange, and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary and advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries. Mr. Sproul stated that accounts were now maintained with the Bank of Canada (book value $11,759, market value $15,052), the Bank of England (book value $10,463, market value $10,517), and the Bank of France (book value $42.79, market value $42.73). Mr.

Sprоul stated that the only activity in these accounts during the past year had been in the account with the Bank of Canada, and that some $21 million in transactions had been put through that account representing Canadian funds acquired as fiscal agent of the United States.

It was agreed that no action should be taken at this time to amend or terminate the resolution of November 20, 1936.

Before this meeting there had been sent to each member of the Committee a memorandum dated February 18, 1954 from Mr. Rouse and Mr. Leonard, Director of the Board's Division of Bank Operations, with respect to the procedure for allocation of securities in the System open market account on the basis of total assets of the several Federal Reserve Banks. This procedure, a detailed statement of which was set forth in a memorandum dated July 14, 1953 and in the minutes of the meeting of the executive committee dated August 4, 1953, became effective September 1, 1953, pursuant to the action taken by the Committee at its meeting on June 11, 1953. There was distributed a sheet showing a pro forma reallocation of United States Government securities in the System open market account as of March 1, 1954, based on preliminary figures of daily averages of total assets of the Federal Reserve Banks during the twelve months ending February 28, 1954. None of the members of the Committee or of the Presidents of Federal Reserve Banks who were not presently members of the Committee suggested any change in the current procedure which provided for a reallocation as of April 1, 1954 on the basis of daily averages of total assets during the 12 months ending February 28, 1954.

It was agreed that no action should be taken at this time to amend the procedure for allocation of securities in the System open market account which was adopted pursuant to the action of the Committee at its meeting on June 11, 1953.

Chairman Martin referred to the authority given to the Chairman of the Committee at the meeting on March 1, 1951 and renewed at the meetings in March of 1952 and 1953 to appoint a Federal Reserve Bank as agent to operate the System account temporarily in case the Federal Reserve Bank of New York was unable to function. He stated that the authority was adopted as an emergency measure and raised the question whether any action should be taken to modify or eliminate it at this time.

It was agreed that no action should be taken to modify or terminate this authority at this time.

Reference was made to the authority granted to the Federal Reserve Banks for repurchase agreements with nonbank dealers in United States Government securities which had existed continuously since January 1948 and the conditions for which had been modified from time to time since then, the latest statement of conditions having been adopted at the meeting of the full Committee on March 4-5, 1953. It was noted that in earlier years the authority was used infrequently but that during the past year or two it had been used upon frequent occasions to help relieve tightness in the market.

Mr. Robertson stated that while he would not object to continuation of the existing authority for repurchase agreements, he had serious doubts as to the desirability of setting rates on such agreements below the discount rate at any time.

There was unanimous agreement that no action schould be taken at this time to amend or terminate the authority with respect to repurchase agreements as approved at the meeting of the Committee on March 4-5, 1953.

It was agreed unanimously that distribution of the weekly report of open market operations prepared by the Federal Reserve Bank of New York should be continued without change. The list of those to whom distribution of the report was authorized follows:

1. The members of the Board of Governors.
2. The Presidents of the 12 Federal Reserve Banks.
3. The Secretary, the Economist, and the Associate Economists of the Federal Open Market Committee.
4. The Secretary of the Treasury.
5. The Under Secretary of the Treasury.
6. The Special Deputy to the Secretary of the Treasury working on debt management problems.
7. The Assistant Secretary of the Treasury working on debt management problems.
8. The Fiscal Assistant Secretary of the Treasury.
9. The Director of the Division of Bank Operations of the Board of Governors.
10. The officer in charge of research at each of the Federal Reserve Banks which is not represented by its President on the Federal Open Market Committee.
11. Mr. Treiber, alternate member of the Federal Open Market Committee; the Assistant Vice President of the Federal Reserve Bank of New York working under the Manager of the System Account; the Manager of the Securities Department of the New York Bank; the Vice President in Charge, and the Manager, of the Research Department of the New York Bank; and the confidential files of the New York Bank as agent for the Federal Open Market Committee.

Chairman Martin then bought up for review three statements of continuing operating policies of the Committee. The first of these was listed on the agenda as item 10 (a) and represented the action taken by the Committee at the meeting on March 4-5, 1953 in reaching a decision that "it is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets)." He stated that in the absence of objection, the foregoing statement would be continued as an operating policy of the Committee.

> There was unanimous agreement that no change should be made in the foregoing statement with respect to the Committee's policy.

The second statement of continuing operating policies (agenda item 10 (b)) read by Chairman Martin was the Committee's decision, last discussed at the meeting on December 15, 1953, that "operations for the System account in the open market be confined to short-term securities (except in the correction of disorderly markets), and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee." He inquired whether any member of the Committee felt that there should be a change in this statement of the Committee's operating policies.

> It was agreed that no action should be taken at this time to modify or terminate this statement of operating policies.

The third continuing operating policy referred to by Chairman Martin (agenda item 10 (c)) was the action taken at the meeting of the Committee on December 15, 1953, at which time it was agreed that transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

In response to Chairman Martin's request for comments on this operating policy, Mr. Sproul made a statement substantially as follows:

> 1. The only one of these continuing operating policies I want to discuss specifically today is the first part of 10 (c) on the agenda for the meeting. That does not mean that I am in agreement now with 10 (b) or the second part of 10 (c). I am not. But I think my remarks about the first part of 10 (c) will also serve to indicate why I am not in favor of 10 (b) and the second part of 10 (c), and beyond that I see no use in challenging again, so soon, a substantial majority of the Committee which, temporarily at least, is in favor of these policies.
> 2. I hope you will not be surprised that I want to discuss the first part of 10 (c); however, I was taken by surprise when it was proposed. At least, I had never heard the fundamentalist view of central banking, which the motion stated so baldly, discussed by the Committee in a way which would have adequately prepared all of us for the prompt vote which was taken.

3. Here was a statement not of operating policy but a capsule statement of a whole theory of central banking--"that operations of the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except for the correction of disorderly markets)." The evolutionary process which ended up in that classic statement of the theory of central banking has, I think, been obscured rather than illuminated by some of our previous discussions.

4. We started out with the appointment of an Ad Hoc Committee to study the scope and adequacy of the Government security market.

When the report was presented to the Open Market Committee we first talked largely about technical details of the market and of open market operations, many of which were outmoded or in process of change.

Then we talked about the relative roles of the full Committee, the executive committee, and the New York Bank, with the political and personal overtones involved in such a discussion.

And finally we adopted this December motion as a preamble to outlawing swaps.

We have, in effect, allowed our whole theory of central banking and the whole scope of central bank operations to be defined by a study of a particular market and the methods we use in operating in that market.

5. To be sure, the Ad Hoc Committee recommended that the Federal Open Market Committee should intervene in the market not to impose on the market any particular pattern of prices and yields, but solely to effectuate the objectives of monetary and credit policy, and that recommendation was adopted by unanimous vote.

And it has been suggested that this was the same as saying that open market transactions shall be entered into solely to provide or absorb reserves. That stretch of language can only be made, however, if you include in your purposes the chain reactions which may result from an increase or decrease in reserves, and accept the theory that these reactions must be and should be left to work themselves out in the market. And that, it seems to me, is not adequately conveyed by the capsule statement which has been adopted.

6. I, of course, do not agree with this theory. We have been misled, I think, by our aversion to pegged or manipulated markets, and bemused by the ideal of a "free market". Such a market has been and is being defined "as one in which the allocation of available funds among various uses is effected through competition in the market. Borrowers offer interest rates and other terms that enable them to obtain funds they require, and lenders bid for loans and securities in accordance with their appraisal of risks and yields

and their portfolio needs. In such a market Federal Reserve purchases and sales would be solely for the purpose of influencing the supply of bank reserves in order to promote economic stability and growth." That may be fine classical economics and fine 19th and early 20th Century central banking tradition, but I think the fact is that we can't and don't now have a "free market" as thus defined. We have a market in which lenders and borrowers have to and do take account of action and possible action by the Federal Reserve System to increase or reduce the supply, availability, and cost of funds; a market which has to and does take account of possible actions by the Treasury with respect to debt management, and by the Government with respect to fiscal policy.

7. The proponents of the doctrine of solely putting in and taking out reserves go on to say that "changes in bank reserves necessarily affect the supply, availability, and cost of credit." That as I have said is sliding over a critical point. Changes in bank reserves not only affect the supply, availability, and cost of credit--they are for the purpose of influencing the supply, availability, and cost of credit. And I would go on to say that we cannot rely solely on the supply of reserves, at all times and in all circumstances, to achieve our objectives in all areas of credit policy in a mixed Government-private economy such as we have.

8. That is a fundamental problem, however, which needs more thorough study and discussion than we have yet given to it. Meanwhile, I think the sooner we get back to the general statement of policy adopted unanimously when the Ad Hoc Committee report was presented, that we shall intervene in the market solely to effectuate the objectives of credit policy, the better off we shall be, in terms of our record, in terms of objective thinking about the subject, and in terms of objective appraisal of the results of the practices we are now following.

Mr. Sproul went on to say that he did not propose any change in the Committee's actual open market operations at this time but that he would propose a change in the operating policy statement under discussion.

Mr. Sproul then moved that the first clause of the continuing operating policy referred to as item 10(c) on the agenda, which provided that "transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction

> of disorderly markets)," be rescinded, and that the Committee rely on the policy statement, "it is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly money markets)," to state its views on the purposes of open market operations.

Chairman Martin stated that he would call on Mr. Robertson for comment with respect to Mr. Sproul's motion since it involved a change in an action which had been adopted at Mr. Robertson's suggestion at the preceding meeting of the Committee. Before calling on Mr. Robertson, however, Chairman Martin said that he would like to make it clear that he had not known of Mr. Robertson's motion before it was made at the meeting on December 15 and that Mr. Robertson had not discussed the motion with him prior to that time. Although the members of the Board of Governors had been having discussions from time to time regarding problems which required daily or weekly consideration, and although some of these included certain aspects of open market operations, there had been no effort on the part of the members of the Committee who were also members of the Board of Governors or on the part of members of the Board's staff to bring any of these questions up for action without adequate discussion,and there had been no attempt to preclude full discussion of the scope or nature of any aspect of any proposal at any meeting. To the extent that personalities and overtones on relations of the New York Bank to the Board, or of individuals in that Bank to the System, were concerned, Chairman Martin emphasized that there had been no intention at any time to raise any questions in terms of personalities, except in the sense that individuals were members of the Committee and were involved in some of the operations. The objective, however, in raising questions was merely to see that they were analyzed and that, to the best of the ability of the Committee, the right answers to the problems were found.

Mr. Sproul stated that he withdrew any implication of connivance on the part of members of the Board of Governors that may have been in his statement.

Mr. Robertson then made a statement substantially as follows:

> I think Mr. Sproul's statement is nicely written, but I did not hear anything in it that has not been fully discussed before. I heard nothing to cause me to change the position I espoused at the last meeting of this Committee. Since the policy that is specified in the resolution is one that can be changed at any time when conditions warrant, from my point of view this is the policy that should be followed until conditions warrant a deviation from it. In other words, for the time being, I would carry out central banking policy in the manner indicated. I don't see anything to be answered regarding this policy at this point. I do not think this point should be gotten out of focus. The resolution is simply an operating policy designed for the present time and is not a "capsule statement" designed to encompass the "whole theory of central banking". If any member of the Committee wishes to discuss the question further I shall be glad to do so. The question is of great significance and we ought to exercise our best judgment in trying to reach an answer.

Chairman Martin noted that the Committee had before it a motion that had been made by Mr. Sproul to rescind that part of a statement of one of its present operating policies which specified that transactions for the System account in the open market shall be solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets).

Mr. Szymczak inquired of Mr. Sproul whether anything had happened since the meeting in December when the policy under discussion was adopted that would indicate that it should be withdrawn at this time.

Mr. Sproul responded by stating that he felt the statement which limited the purpose of transactions to providing or absorbing reserves represented confusion with the statement which had been adopted in March 1953, that "intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets)". The latter represented a general statement which could be supported in terms of central banking policy, whereas the statement that transactions shall be "solely to provide or absorb reserves" represented a different and more limited objective of open market transactions. Nothing had happened since the meeting in December, Mr. Sproul said, which could make the two statements mean the same thing. With respect to the view that the latter statement might be all right because it could be changed at any time, Mr. Sproul felt it undesirable for the Committee to have in its record such a statement of central banking policy which he thought tended to freeze thinking about the whole problem of operations within the Committee's credit policy. If the Committee wished to prohibit "swaps", as was done by the latter part of the motion that had been proposed by Mr. Robertson in December, that could be done without the part of the statement in question. The part of the statement saying that transactions shall be solely to provide or absorb reserves was subject to misinterpretation, Mr. Sproul said, or, at any rate, would need to be interpreted. He cited a suggestion which had been made at a recent meeting of the executive committee that, in the event the Board of Governors were to reduce reserve requirements of member banks by a substantial amount, the Committee should sell from its portfolio securities to an amount sufficient to offset the reserves thus released for the purpose of improving the liquidity position of banks. Mr. Sproul doubted that such a purpose would be consistent with the provisions of the statement under discussion, since the sale of securities in that case would not be solely for the purpose of putting in or taking out reserves. He emphasized the view that while the primary purpose of open market operations might be for the purpose of providing or absorbing reserves, there were always other purposes involved, sometimes two or three subsidiary purposes. For example, as a general rule when the Committee carried on open market operations it was doing so for the purpose of affecting the cost and availability of credit.

Mr. Szymczak stated that he thought Mr. Sproul was correct in this statement but that it should be noted that the Committee had not yet agreed to make offsetting sales of securities from the System account in the event the Board of Governors were to reduce member bank reserve requirements.

Mr. Johns inquired of Mr. Sproul whether it was true that the clause stating that transactions for the System account shall be solely for the purpose of providing or absorbing reserves was intended as an all-inclusive statement of Federal Reserve policy or whether it was intended only as a statement of open market policy, recognizing that Federal Reserve policy as a whole involved more than the policies of the Federal Open Market Committee.

Mr. Sproul expressed the view that while the statement in question was directed toward open market policy, it was in effect a statement of central banking theory which applied to all operations affecting the reserves of banks.

Mr. Robertson said that the language of the statement was contrary to this view, that it applied only to transactions for the System open market account which might be entered into at the direction of the Federal Open Market Committee.

Mr. Sproul responded that he did not think there could be a theory of open market operations which was apart from central banking theory. Without debating that point, however, he felt that the statement that open market transactions were solely to provide or absorb reserves was misleading to the Committee's thinking and to the public that might be interested in the purpose of the Committee's operations. And he could see no need for the statement since the purpose of policy transactions of the Committee was fully covered by the continuing policy statement that intervention in the Government securities market was solely to effectuate credit policy, and by whatever administrative decisions the full Committee and the executive committee might take under a policy action.

Mr. Robertson disagreed with this view, stating that the mere fact that "swap" transactions were authorized by the executive committee last November made it imperative that there be a statement such as that under discussion so that transactions of this sort could not be entered into.

During further discussion, Chairman Martin stated that he felt there was an honest difference of opinion on the question under discussion. So far as the Federal Open Market Committee was concerned, he thought it important procedurally that the authority for arranging for transactions and determination of the purpose of such transactions be in the Open Market Committee. It was not all a matter of central banking theory: transactions for the System account resulting from day-to-day decisions had direct reactions in the market, both psychologically and actually. Their results affected the entire Open Market Committee. What the Committee was aiming at, in Chairman Martin's view, was a means of having shared responsibility, and the procedure should be such that the Committee's responsibilities did not get out of its hands. Chairman Martin recognized that the wording of the action under discussion might not be the best way of carrying out this objective although he thought it was; but the primary purpose of these meetings and of discussions such as this was to find the best way of carrying out the Committee's responsibilities. Otherwise, Chairman Martin felt the Open Market Committee meetings became pretty much a matter of "passing words around the table."

Mr. Szymczak then made a statement regarding the historical development of the System's part in the "pegged" market in Government securities.

Long before there had been a pegged market, he said, the Committee had gotten into the practice of "operating" in the market on the basis of having an "orderly" market. When heavy financing of the Treasury came during the war period, the Committee moved readily from an "orderly" market into a "pegged" market, and the record contained many statements why it was desirable to continue to peg the market after the close of the war. It had taken the Committee a long time to extricate itself from the pegged market, Mr. Szymczak said, and this had not finally been done until the dramatic developments of January and February 1951 which led up to the Treasury-Federal Reserve accord. Even then it was not until December 1952 that a Treasury refunding operation was carried on without any support from the Federal Reserve. Mr. Szymczak thought it natural for the Committee, in view of this experience, to "lean over backwards" to keep from slipping back to a pegged market. It might be, he said, that the Committee had gone too far in adopting the particular language in question, but in his opinion the more clearly the Committee could state the reasons for or purposes of its operations, the less likely it was to fall back into a pegged market. This was especially true when it was noted that the Committee was made up of members from the Board of Governors and those selected by the Federal Reserve Banks, that the full Committee gave instructions to an executive committee, and that the executive committee carried out operations through a Federal Reserve Bank and the Manager of the System Account.

Mr. Sproul said that even accepting Mr. Szymczak's version of history, he still did not think it necessary to say that transactions were solely to provide or absorb reserves, in order to prevent the Committee from slipping back to a pegged market. In his view, the statement that "intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy" and the prohibition against purchases of certain Treasury securities during periods of Treasury refunding were adequate to keep this from happening so long as the Committee had a desire to do so.

After further discussion, Chairman Martin noted that there had been no second to Mr. Sproul's motion.

> In the absence of a second to Mr. Sproul's motion, Chairman Martin stated that it would be understood that the Committee agreed to continue without change the existing statement of operating policy under discussion, namely, that "transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets) and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee."

At Chairman Martin's request, Mr. Szymczak made a statement with respect to bankers' acceptances. There had been a brief discussion of this subject at the meeting of the executive committee on February 17, 1954 in connection with a suggestion by Mr. Rouse that consideration be given to setting the minimum rate on acceptances below the discount rate in order that the rate on acceptances might become a market rate which would reflect demand and supply forces. In his comments, Mr. Szymczak noted that the rate on acceptances had conformed to the discount rate for many years. Historically, the acceptance market had never developed in the United States to the extent that it had abroad, and the volume of acceptances in this country had never been large from the standpoint of the total money and credit supply. There was some feeling, however, that if the System were to reduce its minimum buying rate on acceptances to a figure below the discount rate, say to 1-1/4 per cent under present conditions, and if the Manager of the System Account were instructed to purchase a moderate amount of acceptances--$15 or $20 million--adjusting the effective buying rate to whatever rate was necessary in order to accomplish this purpose, the market for bankers' acceptances might be stimulated. If this were done and a volume of acceptances developed it would provide a short-term instrument in which the Committee's operations might be carried on in addition to Treasury bills. Mr. Szymczak said that, as indicated by Mr. Rouse at the executive committee meeting on February 17, there was a continuing demand for acceptances in excess of the available supply. While informal discussions since the meeting of the executive committee on February 17 showed that some members of the Committee felt it would be desirable to reduce the acceptance rate to 1-1/4 per cent immediately, some others felt it would be preferable initially to reduce the rate to 1-1/2 per cent and gradually to move to a lower rate. Mr. Szymczak also said that there seemed to be a general feeling that it would be desirable to encourage the acceptance market, but it was not clear at this time just how a reduction in the rate would affect the market and it might be appropriate to study the matter further before any course of action was decided upon.

Mr. Sproul stated that acceptances should be and were intended to be an open market piece of paper at rates which followed closely and flexibly the supply of funds in the market. Through misuse over the years and because of the shortage in the supply of acceptances and a tendency on the part of bankers to engage in swaps of acceptances so that they did not get out into the open market, the acceptances had become not an open market piece of paper but an "inside" or bank piece of paper with rigid rates. The proper functioning of the market was being disturbed because of that rigidity in rates. As to the rate, Mr. Sproul had no strong feeling regarding the level at which it should be set if the Committee wished to do something although he had a slight preference for the more gradual approach in reducing the rate in order to avoid the appearance of seeming to try to break down the whole structure of rates.

Mr. Erickson commented on the historical use of bankers' acceptances in the United States, after which he said that it was his feeling that since the acceptance was an instrument which had not been used to any extent for twenty or more years, it would be desirable to move gradually in any program for getting it into wider use. Mr. Erickson suggested that when the Committee had reached some decision as to what might be done, it would be desirable to advise the Federal Advisory Council of the action decided upon and why such action was to be taken. With respect to the rate, Mr. Erickson felt that it should be reduced progressively rather than by a single move to 1-1/4 per cent.

Mr. Mills stated that he would question whether this matter should be discussed with the Federal Advisory Council or with any one outside the Board of Governors and the Federal Reserve Banks prior to the Committee's making a policy decision. He felt that a change in the use of acceptances which might attract more international business to the United States was a long range matter and in his judgment a change in the rate would be much more significant in the short-run than would be a change in the System's policy toward use of acceptances. A reduction in the rate to 1-1/2 at this time would have a psychological reaction of much greater importance than its actual effect in the acceptance market and would produce a reaction in the money market generally that would support the Committee's policy of active ease.

Mr. Erickson commented that it was not his thought to discuss the question with the Federal Advisory Council before reaching a decision; he merely felt that it would be desirable to inform the members of the Federal Advisory Council of the action taken before they learned of it through the market.

Mr. Rouse commented briefly upon the market for acceptances and rates in that market, during the course of which he referred to possibilities for increased use of bankers' acceptances as a means of financing certain trade transactions such as exports of cotton in the event a more favorable rate became available. In the event the outstanding volume of such acceptances were increased, that might in turn facilitate other foreign financings. If it was the desire of the Committee that the System account engage in acceptance operations, Mr. Rouse thought that the first step which should be taken would be to suggest to the principal acceptance dealers, of which there were four, that the present rates were not realistic and that a lower rate--perhaps 1/8 per cent lower--might make some difference. Mr. Rouse added that it probably was true that the immediate effect on the market for bankers' bills would be minor since the tax advantages on these instruments to foreign central banks and other foreign investors would maintain their demand down to a level of rates at least equal to the Treasury bill rate. At the same time, a lower rate on bankers' bills would tend to bring into the market borrowers who had been employing regular promissory note financing.

Mr. Riefler felt it quite important to get the acceptance market active and functioning again, stating that it was the one international market in private commercial credit. How fast this could be brought about was a question. He felt that the manner in which the acceptance market functioned could have a direct bearing on the current recession. Up to the present time exports from the United States have been maintained even though imports have shown some letdown. As long as foreign central banks feel free in their reserve position, Mr. Riefler said, they would be inclined not to institute restrictive monetary and credit measures. That very fact would help maintain the United States export market. If the acceptance market in this country were functioning and low money rates were effective, it might be expected that some trade financing now executed in the London market would move to New York. Such a development would relieve drains on foreign central bank reserves and provide a real inducement not to adopt restrictive measures in order to protect reserves.

Mr. Robertson stated that he had given some thought to this question and was inclined to think that there should be no minimum buying rate on acceptances; that if they were to be the subject of open market activities, transactions should be at the market rate, whatever it happened to be at the moment, as in the case of Treasury bills.

During a further discussion, Chairman Martin stated that he did not feel that the Committee was prepared to act on the proposal for a change in the acceptance rate at this time, and he suggested that the executive committee be requested to study the matter further. He also referred to a memorandum which had been prepared at the Federal Reserve Bank of New York to which reference had been made earlier in the discussion, suggesting that it might be desirable for the members of the Committee to have the benefit of the information contained in that memorandum. In response to a question from Mr. Szymczak as to whether under his proposal for further study the executive committee would have authority to make a reduction in the minimum buying rate on acceptances if it concluded that such action would be desirable, Chairman Martin stated that his suggestion could be interpreted to include that authority if none of the members of the full Committee had any objection to that procedure.

> Chairman Martin's suggestion was approved unanimously, with the understanding that the executive committee was authorized to reduce the minimum buying rate on acceptances if in its judgment such action was desirable prior to the next meeting of the full Committee.

Chairman Martin stated that, as agreed at the meeting on December 15, 1953, Mr. Vest had looked into the meaning of the phrase in the Committee's directive providing that transactions, among other things, be with a view to "the practical administration of the account". Each member of the Committee had been furnished with a memorandum dated December 29, 1953, concerning this point.

Mr. Vest reviewed briefly the content of the memorandum referred to, stating that the phrase or some closely similar phrase had been used in virtually all directives of the Federal Open Market Committee or of the executive committee since the Committee was reorganized pursuant to the Banking Act of 1935. He said that the phrase gave authority for those incidental decisions, procedures, and actions necessary to carry out effectively and appropriately the policies otherwise prescribed by the full Committee and the executive committee and within the limitations established by their directives or otherwise. It did not permit actions to influence or change market conditions other than in accordance with the policy directives. It was Mr. Vest's view that while the phrase perhaps was not essential, it was preferable to have it or some similar phrase in the directives.

Following a brief discussion, it was agreed that the phrase under discussion would be retained in the Committee's directive.

At this point members of the Board's staff entered the room for the purpose of presenting a review of current economic developments illustrated by chart slides. A transcript of the text of the review was sent to each member of the Committee and to each President of a Federal Reserve Bank who was not currently a member of the Committee following the meeting, and a copy has been placed in the Committee's files.

Following the review and a discussion of the economic situation, the members of the staff who had entered the room in connection with the presentation withdrew.

Chairman Martin then suggested that there be a discussion of the Committee's existing policy of actively maintaining a condition of ease in the money market, and whether modification of this policy would be desirable in terms of the current and prospective economic and credit situation.

Mr. Sproul stated that as far as open market operations were concerned, continuation of the present policy appeared to be indicated in view of the economic situation and the credit information presented. Operations should be flexibly geared to changes in the money market, he said, and this raised the question whether it might be desirable to try to operate more closely to the level of discounts and reserves than had been done over the past two months, so as to avoid unnecessary pressures as between supply and demand in the short-term money market. Mr. Sproul stated that the maintenance of a substantial volume of free reserves at a time when there was considerable confidence on the part of the banking system in the economic outlook had resulted in creating pressures on the short-term market which had coincided with other dramatic changes in the volume of securities available to that market as a result of the Treasury refunding. He thought it might be possible, without any change in the psychological effect on banks, to operate more closely to the market than in the recent past.

Mr. Szymczak felt that this would be reasonable but Mr. Mills questioned whether there might be a danger of moving too closely toward tightness.

Mr. Sproul thought that there should be no deviation from the policy of active ease, stating that he would not think of moving toward tightness in the market. The question was whether the Committee could get the same effect as far as its policy of active ease was concerned if there were less attempt to maintain a substantial volume of free reserves and if there could be an avoidance of some of the "sloppiness" that had occurred in the market.

Mr. Mills felt that it got back to the question of how the market might react and whether it might regard a closer relationship between discounts and reserves as a change in the Committee's policy.

Mr. Sproul responded that in his opinion, the Committee must avoid giving any such impression, that there should continue to be assurances that reserves would be available readily at all times, and that whatever amounts of reserves were needed by both the private business situation and because of borrowing needs of the Treasury from the banking system would be met. There should be no misunderstanding of the policy of active ease and of making reserves available.

Chairman Martin suggested that the Committee agree on a continuation of the existing policy of actively maintaining a condition of ease in the money market as a policy appropriate in the light of current economic conditions.

This suggestion was approved unanimously.

Chairman Martin then requested that there be a discussion of a possible change in reserve requirments of member banks, concerning which a memorandum prepared by members of the staff of the Board of Governors under date of February 24, 1954 had been distributed before this meeting. He noted that the economic review presented earlier this morning indicated a possible need for additional reserves later this year growing out of the Federal Government's deficit, and one of the System's problems would be how this need should be met. While setting of reserve requirements was essentially a responsibility of the Board of Governors, the question was not one which could be disassociated from open market policy. Chairman Martin asked for comments as to the possible impact of a change in reserve requirements, whether present requirements should be lowered, and, if so, the procedure that might be followed in bringing that about. He recalled that at the meeting of the executive committee on January 19, 1954 Mr. Mills had suggested consideration of a reduction in reserve requirements with offsetting sales of securities from the System open market account for the purpose of improving the liquidity position of banks. Such a procedure, Chairman Martin said, would have political implications in that it would mean the transfer of assets from the Federal Reserve Banks to commercial banks. There was also a question as to how such action would be interpreted by the financial markets and the business community generally which, he said, still needed quite a bit of education on such matters. Chairman Martin emphasized that the Board of Governors had reached no conclusions and had no proposals to make regarding this matter; he was raising the question in order that the members of the Board might have the benefit of comments from all members of the Federal Open Market Committee and Presidents who are not currently members of the Committee.

Mr. Earhart stated that, leaving aside the question of timing, he rather leaned toward a further reduction in reserve requirements. His basic feeling was that there was no particular reason why member bank reserve requirements should continue so much higher than the minimum rates established by statute. It was Mr. Earhart's view that the long-run problem before the System was still concerned with inflationary factors and he felt that if reserve requirements were kept near the maximum limits permissible, there would not be as much leeway for meeting the development of inflationary forces as would exist if requirements were lowered from current levels. If such a reduction were to be made, it would seem that it should be done during a period of downward readjustment in economic activity.

Mr. C. S. Young concurred in Mr. Earhart's statement, commenting that he felt business conditions currently were really worse than the economic review indicated. He felt that there would be an important psychological effect by telegraphing across the country through a reduction in reserve requirements word of the System's policy.

Mr. Leedy did not think that the present was the time to be making adjustments in reserve requirements. His understanding of the economic presentation was that the real need for additional reserves would not come until perhaps in May of this year. Until then, he could see nothing to be accomplished by a downward adjustment in reserves and he would be particularly concerned that the psychological reaction might be one of indicating that the Federal Reserve was feeling growing concern regarding the economic situation. Mr. Leedy stated, however, that a reduction might be considered sometime later if a need for more reserves became apparent.

Mr. Fulton concurred in Mr. Earhart's general view. Bankers now seemed to feel that ample funds were available for loans, both for short-term purposes and for longer-term investment, and while it would be desirable to have a lower level of reserve requirements which might be helpful later on in combating an inflationary movement, Mr. Fulton did not think the present a good time psychologically for a reduction.

Mr. Leach stated that he found difficulty in determining what an appropriate level of reserve requirements would be although he felt it better to have them lower than at present with some leeway to permit an increase. He did not think the present was the time for a change, however, because of a possible interpretation by bankers and others throughout the country that the Federal Reserve was more concerned with the state of economic activity than was really the case. Mr. Leach also had doubts about a reduction in reserve requirements with an offsetting sale of securities from the System account for the purpose of improving the liquidity position of banks. He wondered what would be the reason, from the standpoint of central banking policy, for lowering reserve requirements and then immediately offsetting that effect by another action.

At Chairman Martin's request, Mr. Vest commented briefly on the statutory provisions relating to changes in reserve requirements, stating that authority was given to change requirements "in order to prevent injurious credit expansion or contraction".

Mr. Sproul then made a statement substantially as follows:

1. I don't think we should confuse current credit policy with the long run problem of the level of reserve requirements, nor with the problem of increasing the ratio of bank earning assets to capital, and strengthening the capital position of the banks. Those are largely separate problems.
2. So far as credit policy is concerned, I think we have already done and can continue to do, with open market operations and the discount rate, what credit policy can and should do to cushion or combat the current decline in economic activity. Present economic conditions and the outlook do not seem to me to justify additional measures with a shock impact such as a reduction in reserve requirements.
3. I cannot agree with the argument that banks and other lenders need the impetus of increased liquidity to encourage them to seek loans and investments. The reports and evidence we have indicate that the banks are now actively seeking additional loans and investments and have no fears about the availability of reserves.
4. Interest rates have declined appreciably in recent months and are not, I think, a restraint on borrowing. Even the prime loan rate is being shaded in other ways than actual reduction of the

rate, and the banks are facing increased competition from the commercial paper market. The days of the present prime loan rate are already numbered.

5. Treasury borrowing during the remainder of this fiscal year, particularly if it is done in two or three bites as seems likely, is not of sufficient magnitude to force our hands on reserve requirements. I see no need to supply a large additional amount of reserves to the banks in advance of current borrowing by the Treasury. It may be that later in the year large Treasury borrowings and seasonal needs of private borrowers will again afford an opportunity to reduce reserve requirements.

6. I doubt if secondary reserves of the banks need to be bolstered by a reduction in reserve requirements, accompanied by open market sales of Government securities to prevent a sloppy situation. The evidence for some time has been that the banks are already tending to extend their maturities and to seek new loans, and are not yet deterred by a too delicate regard for their secondary reserve position. There is also the possibility that such a two-way operation, by increasing the banks' earning assets painlessly and safely might even lessen their incentives to seek new loans or longer term investments to maintain earnings.

7. My own view is that the economic situation has not yet declared itself in terms of further and cumulative decline, in a way to warrant use of the over-all weapon of a reduction in reserve requirements. The tight spots in credit of all kinds appear to have been eliminated, business-mortgage-consumer. I would hold additional fire until economic conditions more clearly indicate the need for further action in the monetary sector or until private demand and Treasury borrowing put pressure on the reserve position. Meanwhile I wouldn't try to make monetary action carry too much of a load which should also be carried by fiscal policy, if more vigorous action is needed.

Mr. Robertson concurred in Mr. Sproul's statement.

Mr. Williams stated that he was impressed particularly with Mr. Sproul's comments regarding interest rates. Mr. Williams did not feel that the present was the time for the System to add to downward pressures on money rates.

Mr. Erickson stated that he could see no occasion for a reduction in reserve requirements at present. He agreed with Mr. Sproul's analysis but would put more emphasis on the point that, if commercial banks obtained additional earning assets through sales of securities from the System open market account, the incentive for them to seek other loans might well be reduced.

Chairman Martin and Mr. Mills emphasized that there had been no disposition on the part of the Board of Governors to reduce reserve requirements, that this discussion was purely exploratory, and that in raising the question there was no implication of any intention to reduce reserve requirements.

Chairman Martin referred to the directive to be issued by the Committee to the executive committee. He stated that without intending in any way to indicate an intention on the part of the Board to change reserve requirements, there had been prepared a possible paragraph to be included in the directive which would authorize the executive committee, in the event the Board should decide to reduce reserve requirements before the next meeting of the Committee, to give authority to the New York Bank to sell from the System account securities having a maturity at the time of not more than one year, in an amount not in excess of the estimated amount of member bank reserves released by such reduction in reserve requirements. The draft paragraph would also include the understanding that the amount of any such sales shall not be included in the limitation regarding increases or decreases in the amount of securities held in the System account and, if the executive committee so instructed, such sales might be made at prices determined as of a selected date prior to the sale.

Chairman Martin went on to say that he had no feeling as to whether the paragraph should be included in the Committee's directive, that he merely wanted to point out that the Committee should have in mind that some definite instructions would be needed if a decision were reached to follow the suggestion that offsetting sales of securities be made from the System account in the event the Board of Governors reduced reserve requirements.

There was a brief discussion of the draft paragraph at the conclusion of which it was agreed unanimously that no action should be taken to incorporate it in the directive at this time.

Mr. Rouse stated in response to Chairman Martin's question that he had no suggestions for change in the directive.

Thereupon, upon motion duly made and seconded, the following directive to the executive committee was approved unanimously:

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), 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, (c) to correcting a disorderly situation in the Government securities market, and (d) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $2,000,000,000.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (which Bank shall have discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) of 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 $2,000,000,000.

It was agreed that the next meeting of the Committee would be held during the week beginning June 21, 1954, it being noted that if necessary a special meeting of the Committee could be called to convene before that time.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary