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, June 23, 1954 at 10:00 a.m.

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Bopp, Mitchell, Rauber, Roelse, Tow, and R. 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. Hexter, Assistant General Counsel, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York
Mr. Miller, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

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

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

Chairman Martin stated that subsequent to the meeting on March 3, 1954, advice was received of the election by the Federal Reserve Banks of Atlanta, St. Louis, and Dallas of Mr. Malcolm Bryan as member, and of Mr. D. C. Johns as alternate member, of the Federal Open Market Committee for the remainder of the year ending February 28, 1955, and that both had executed the customary oath of office. The Chairman also stated that Mr. Bryan had suggested that Earle L. Rauber be elected as associate economist of the Committee.

The election of Mr. Bryan as a member of the Federal Open Market Committee for the remainder of the year ending February 28, 1955, and of Mr. Johns as an alternate member, was noted, and, upon motion duly made and seconded, and by unanimous vote, the election of Mr. Rauber to serve as an associate economist of the Federal Open Market Committee until the election of his successor at the first meeting of the Committee after February 28, 1955, was approved. These actions were noted and approved with the understanding that in the event of the discontinuance of their official connections with the Federal Reserve Banks of Atlanta or St. Louis, as the case might be, Messrs. Bryan, Johns, or Rauber would cease to have any official connection with the Federal Open Market Committee.

In taking these actions, it was also understood that Mr. Bryan was selected as an alternate member of the executive committee of the Federal Open Market Committee for the remainder of the year ending February 28, 1955, and that the order in which the alternate members of the executive committee would serve for Messrs. Sproul and Williams would be Mr. C. S. Young, Mr. Leedy, and Mr. Bryan.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 3, 1954, 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 April 15, 1954, in reducing the minimum buying rate on prime bankers' acceptances from 1-3/4 per cent, as established by the Federal Open Market Committee on February 5, 1954, to 1-1/2 per cent, effective April 16, 1954, was approved, ratified, and confirmed.

Under date of April 16, 1954, there had been sent to each member of the Federal Open Market Committee a report of an audit of the System Open Market Account made by the Division of Examinations of the Board of Governors as at the close of business March 19, 1954, which report had been submitted to the Secretary of the Committee under date of April 12, 1954 in accordance with the action of the Federal Open Market Committee at its meeting on June 21, 1939. Chairman Martin inquired whether any of the members of the Committee wished to comment on the report.

Without objection, the audit report referred to was noted and accepted.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee held on March 3, March 16, March 30, April 13, April 27, May 11, May 26, and June 8, 1954, were approved, ratified, and confirmed.

Before this meeting there had been sent to the members of the Committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period March 3 to June 18, 1954, inclusive. At this meeting there was distributed a supplementary report covering commitments executed June 21 and 22, 1954. Copies of both reports have been placed in the files of the Federal Open Market Committee. During a brief comment regarding the reports, Mr. Rouse stated that the System account had had to be in the market intermittently since the last meeting of the full Committee, primarily during the two periods of heavy Treasury tax collections. Mr. Rouse also expressed the view that the operations had been such as to keep average reserves of member banks in line with the wishes which had been indicated in the directives issued by the full Committee and the executive committee. He further stated that there had been such a decline in short-term money rates that the money market had lost the use of both the discount and the repurchase facilities at their existing rates for carrying securities and, as a result, adjustments of reserve positions had been handled by sales of short-term securities and inter-bank borrowing. This had worked quite well except for a few days when reserves had dropped suddenly and substantially, at which times the money market had shown an atmosphere of tightness that was not warranted by the basic reserve position.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period March 3 to June 22, 1954, inclusive, were approved, ratified, and confirmed.

Members of the Board's staff then entered the room for the purpose of assisting in presenting a review of the economic situation and the credit outlook, illustrated by chart slides. Mr. Wheeler, Vice President of the Federal Reserve Bank of San Francisco, also entered the room at this point.

Following presentation and discussion of the review, members of the staff who had entered the room for the purpose indicated withdrew, as did Mr. Wheeler. Copies of the script of the review were sent to the members of the Committee following the meeting.

Chairman Martin suggested that there be a discussion at this point of the general policy of the Federal Open Market Committee. He noted that the Committee had had a policy of "active ease" and he called attention to the discussions of the executive committee at meetings held since last March, as recorded in minutes of those meetings, which indicated there had been some difference of opinion as to the degree of ease that should be maintained in the money market under the general policy. Chairman Martin asked that each of the members of the Committee as well as the Presidents not currently members of the Committee express their views as to the appropriateness of the policy of active ease, and as to the degree of ease that should be sought in carrying out the policy.

Mr. Sproul was of the view that during the period since the last meeting of the full Committee, and as brought out by the presentation this morning of the economic and credit situation, the contribution of monetary and credit policy during the past three months had been as nearly in accordance with the needs of the situation as the Committee could have hoped to have it. The Committee had maintained active ease in a way that had facilitated and made possible the financing of business, both short-term and longer-term needs, in the productive areas of the economy and in the areas of capital equipment and housing, without introducing such sloppiness in the market as would either raise concern as to the Committee's outlook for the credit and business situation or cause distortions in the credit and capital markets. Mr. Sproul thought that the Committee's policy had been carried out so as to have about the right amount of ease. There was still some uncertainty as to the prospect for the course of business, unemployment, and prices, and he felt that the policy which the Committee had been following was the one that should be continued, with the Committee remaining alert to changes that might occur in the business and credit situation. Mr. Sproul also said, in response to a question from Chairman Martin, that it seemed to him— even more so since the reduction in reserve requirements of member banks announced by the Board on Monday of this week— that any further reduction in the discount rate of the Federal Reserve Banks at this time would be a waste of ammunition which might possibly be useful later on. He felt that the System could well afford to observe the working out of the effects of this reduction in reserve requirements before giving further consideration to another decrease in the discount rate.

Mr. Szymczak thought that no reduction in the discount rate was called for at this time. He felt that the Open Market Committee's policy this year had been very helpful insofar as monetary policy could be effective in stimulating recovery, and that it had not been overdone either on the side of causing excessive ease or too little ease. Mr.

Szymczak stated that he would prefer, however, that the System encourage the use of repurchase facilities during certain periods by greater flexibility in the rates on repurchase contracts.

Mr. Robertson felt that the policy of the Open Market Committee as carried out by the executive committee had been almost perfect this spring. He would not tinker with the discount rate presently. As to free reserves, Mr. Robertson felt that the level the Committee had adhered to recently—in the $400-$700 million area without, however, a fixed limit—had been satisfactory and he would not deviate from the policy recently followed by the Committee.

Mr. Williams suggested that the Committee should "play by ear" rather than attempt to prepare a score at this time. He felt the reduction in reserve requirements should be observed carefully and that for the present the general policy the Open Market Committee had been following should be continued.

Mr. Bryan said that he had no quarrel at this point with the policy of the Open Market Committee or the way in which it had been carried out by the executive committee but that from time to time he was puzzled as to just what Committee policy was driving at. He wondered whether there was full understanding of the criteria being used in connection with open market operations. For example, he questioned whether the concept of "free reserves" was a better guide than total reserves, and he was not certain just what the executive committee had in mind in talking about "sloppy" conditions in the money market. Mr. Bryan also referred to the study being carried on of the discount rate and discount rate mechanism, stating that he felt the System was handling the discount mechanism badly and was not getting the proper use out of it by leaving the rate at such a penalty level as now existed.

Chairman Martin called on Messrs. Thomas and Rouse for comment on the use of free reserves as a guide to System operations and the significance of committee discussions of a "sloppy" money market.

Mr. Thomas felt there could be a difference of opinion as to whether free reserves or total excess reserves or the volume of member bank borrowing offered the best guide to System policy. He believed that an amount of free reserves of about $700 million was close to the minimum necessary for a condition of active ease, but was not sure that if excess reserves rose much above the $800-$900 million range it would make any difference with respect to credit expansion. When excess reserves rose above that level and member banks were out of debt, there was the likelihood of a sloppy market in which funds were "chasing each other around the market". Unless monetary ease stimulated new demand for credit, it simply meant having idle funds in the market or a sloppy money market.

Mr. Rouse suggested that free reserves indicated that the banking system was out of debt to the Federal Reserve, and as soon as that situation developed there tended to be funds "chasing themselves around the market." The Banks had become accustomed to keeping funds fully invested, as had nonbank corporations, by placing them in the short-term market. Mr. Rouse felt that in determining whether there was a sloppy money market it was of importance to know whether banks felt it desirable to invest their funds in the short-term market.

Mr. Sproul suggested that the concept of free reserves as a guide to credit policy involved leaving the banks with a feeling of ability to meet credit demands without strain and with some awareness of what the Committee's policy was with respect to credit availability. It allows the banks to run without checkrein and lets the capital markets know there is no present or prospective likelihood of credit restraint. The term sloppy money market involved the question where further injections of reserves would bring about or help bring about further credit demands that would stimulate production and employment, or whether they would only generate increases in demand deposits and reductions in money market rates of interest without any stimulating effect on the economy. As to the discount rate, Mr. Sproul saw no way, under a policy such as the Committee had been following, with its effects in reducing short-term open market rates, of getting away from having the discount rate appear to be a penalty rate in relation to open market rates. He questioned whether the discount rate had been or now is a penalty rate in terms of the use of Federal Reserve credit, which would be where the penalty would lie.

Mr. Leedy felt that the open market policy that had been followed recently had worked well and had been appropriate during this period. He thought the Committee had been correct in erring on the side of ease rather than tightness but expressed the view that a time might be approaching when the Committee would wish to "steer a little closer to the shore". Mr. Leedy said that he would not, however, wish to have the Committee's actions give any real indication of a change in the policy it had been following. As to the discount rate, Mr. Leedy said he had not been too happy about the latest reduction because he had not felt that the time was quite appropriate for it.

Mr. C. S. Young said that he had been very pleased with the reductions in the discount rates in April and May as well as with the reduction in reserve requirements announced this week. He felt that open market policy and the executive committee's actions in carrying it out had been excellent this spring. The only thing that worried him, he said, was that there seemed to be more optimism about business conditions than he could justify on the basis of observations in the Chicago area. Mr. Young cited reports of heavy inventories of durable goods as an unfavorable factor in the business outlook and stated that there were a number of soft spots in the business situation in the Seventh Federal Reserve District. He felt the Committee should not try to pinpoint a level of free reserves to be maintained and would not be concerned if they rose somewhat above the $700 million level. Mr. Young also expressed the hope that the discount rate would not be relegated to a minor role as an instrument of credit policy.

Mr. Vardaman stated that he had no comments other than to express approval of the recent reduction in reserve requirements, and that he concurred largely with the suggestion made by Mr. Bryan regarding a study to determine what were the best criteria for measuring the effects of open market operations. Mr. Vardaman added that he would favor maintaining at least $800 million of free reserves in the money market for the present.

Mr. Mills expressed reservations regarding the program followed by the executive committee this spring. Accepting the policy of active ease, the question was what the degree of ease should be and how it should be translated in the form of open market operations. Mr. Mills thought that the executive committee had erred by being preoccupied with the state of the market and the market's reaction to the adequacy and availability of reserves, and in doing so it had lost sight of the fact that open market policy is more than a policy that affects the securities market: it is an instrument of national economic policy. Mr. Mills felt the Open Market Committee had a responsibility to achieve broader economic effects than those on which he felt the executive committee had been concentrating during the past few months. During the latter part of May and early June free reserves had not been at a level to accomplish this broader economic purpose, he said, but during the past two weeks free reserves had, through fortuitous circumstances, risen above the $500 million level which had been taken as satisfactory, and as they rose there was an immediate response to the more freely available reserves in the form of a better tone in the market and a stronger range of prices in the Government securities market. Along with that, there had been a reduction in loans on securities at reporting member banks and a movement of these securities from the loan portfolio where they had gotten congested, out to private investors. Mr. Mills felt that the Committee was now perhaps able to do more effective work than would be possible if it looked exclusively to the markets and allowed the amount of reserves in the market to drop too low. He stated that the banks and the investment market were very sensitive to actions by the Federal Reserve System and that every time there had been a hint of tightness, even temporary, there had been a suggestion that System policy had changed—something that had a very dampening influence on the situation. If the Committee could have a policy that was reassuring to the investment and financial community without providing excesses, that would represent a highly desirable situation.

Mr. Leach stated that, while he was not a member of the executive committee, he felt the program followed this spring had been just about right. Banks have known that they could get more reserves if they needed them for expanding loans and Mr. Leach did not feel that banks had turned down any legitimate demands for credit. To him, that appeared to be more important than the level of free reserves. Mr. Leach noted that his views were about the opposite from those expressed by Mr. Mills. He did not feel the System was warranted in just making money "easy"; the responsibility of the Committee might be to keep conditions from being too easy, if estimates of needed reserves proved to be wrong.

Mr. Earhart said that he had no criticism to offer of the Open Market Committee's policy and only praise for the way in which that policy had been carried out this spring. As to the discount rate, he would not recommend a change in it at the present time. However, he was much interested in the study being made of the discount rate mechanism and felt the System had allowed the discount rate at times, including perhaps the present, to get out of touch with the policies indicated by the Open Market Committee. A discount rate a little more in line with market rates might avoid in some measure some of the tightness that developed in the market from time to time by making banks more willing to borrow during temporary periods of tightness. Mr. Earhart would not be inclined to change the existing policy of the Open Market Committee for the present. If sloppiness developed in the market, Mr. Earhart thought it would be reflected in a further reduction in the bill rate and he saw no objective to be gained by bringing about that situation.

Mr. Johns said he would be pleased if the Committee continued for the present the policy it has been following, remaining alert to any needs that might arise for variations or change in such policy. He had no intention of recommending to the directors of the St. Louis Bank a change in the discount rate for the present, although he shared the views expressed by Messrs. Bryan and Earhart as to inconsistencies in the management of the discount rate in relation to other instruments of credit policy. Mr. Johns applauded the reduction in reserve requirements announced this week and expressed the hope that this action by the Board represented a decision to use changes in reserve requirements more flexibly in the future than in the recent past.

Mr. Vardaman stated that he agreed almost completely with the statements made by Mr. Johns.

Mr. Powell said that he had been thinking along lines expressed by Mr. Johns, and he would endorse strongly the views expressed by Mr. Mills. Mr. Powell stated that banks were short of capital, that their expenses were high, that they needed more funds for investment, that the open market account was larger than the System needed, and that reserve requirements could well be reduced further, perhaps to the minimum statutory limits, with offsetting sales to banks of securities from the System open market account.

Mr. Erickson felt that operations in the System account had been handled almost perfectly in recent months. He would not reduce the discount rate now and would not try to pinpoint any figure of free reserves to be maintained but would "play by ear" to promote active ease and would make use of repurchase agreements.

Mr. Fulton felt the practical effects of open market operations in recent months had been very good. The rate structure at banks in the Cleveland District had been well maintained, and there had been no dearth of lendable funds at banks for use in meeting legitimate credit needs. The discount rate, he felt, was a weapon that could be used at a more opportune time than the present. Mr. Fulton agreed with the views expressed by Mr. Powell that reserve requirements were too high and said he would favor as an objective their further reduction as rapidly as feasible.

Mr. Irons stated that he would take no exception to the policy of active ease but that he would have some reservations as to the degree of ease, particularly he would be reluctant to see it become any more active than at present. With respect to the discount rate, Mr. Irons would be reluctant to see any change at this time. As to free reserves, Mr. Irons wondered whether there was not too much emphasis being put on the sheer volume or availability-of-funds concept and too little weight given to the rate as a factor in the market and as a test or measure of the results of System policy. He felt the System may have shifted too far from looking at the rate as a factor of significance.

At this time, 12:07 p.m., the Committee went into executive session and all members of the staff withdrew from the room. Following lunch, the executive session continued until 3:35 p.m. at which time members of the staff who were present at the close of the morning session rejoined the meeting except that Messrs. Bopp, Mitchell, Rauber, Roelse, and Hexter were not present.

Mr. Robertson referred to the authority given by the Committee to each Federal Reserve Bank in January 1948 regarding repurchase contracts with nonbank dealers in United States Government securities, as renewed and changed from time to time since, and to the statement of conditions for such agreements as adopted at the meeting on March 4, 1953 which provided that the rate on repurchase contracts be fixed by the Manager of the System Open Market Account subject to stated limitations. Mr. Robertson said that he felt the Manager of the System Open

Market Account should be relieved of the responsibility for fixing the rate, since it seemed undesirable to give him the authority and then not expect him to use it freely, as had been the case in recent months.

Mr. Robertson then moved the adoption of the following authorization:

In lieu of the authority granted with respect to repurchase agreements at the meeting of the Federal Open Market Committee on March 4, 1953, the executive committee is hereby authorized to direct the Federal Reserve Banks, or any of them, to enter into repurchase agreements with nonbank dealers in United States Government securities at such time, in such amounts, and at such rates (or rates ranges) as the executive committee shall prescribe, subject to the following conditions:

1. Such agreements
   (a) In no event shall be at a rate below whichever is the lower of (1) the discount rate of the purchasing Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills;
   (b) Shall be for periods of not to exceed 15 calendar days;
   (c) Shall cover only short-term Government securities maturing within 15 months; and
   (d) Shall be used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.
2. Reports of such transactions shall be made to the Manager of the System Open Market Account to be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by a Federal Reserve Bank shall be sold in the market or transferred to the System Open Market Account.

Mr. Robertson's motion was put by the Chair and approved by unanimous vote.

Mr. Robertson then referred to the following memoranda, copies of which were distributed before this meeting, relating to bankers' acceptances:

1. Bankers' Acceptances - Role of Bankers' Acceptances. March 24, 1954. This memorandum gives background information regarding American acceptance market development from inception following establishment of the Federal Reserve System.
2. Current Problem of System Policy with Respect to the Bankers' Acceptance Market. March 25, 1954. This memorandum contains staff suggestions as to steps the Federal Reserve might take to assist in bringing about a more freely functioning bankers' acceptance market.
3. Bank Acceptances: Present Conditions and Practices. May 14, 1954. This memorandum was prepared by Messrs. Hexter and Youngdahl of the staff of the Board of Governors with a view to presenting factual information regarding present conditions and practices in the market for bank acceptances.
4. Proposal to Purchase Bank Acceptances for Federal Reserve Account. June 1, 1954. This memorandum from Governor Robertson raises a number of questions regarding the proposals contained in the staff memorandum dated March 25, 1954, referred to under item "2" above.
5. Memoranda from Mr. Riefler and Mr. Rouse dated June 16, 1954, regarding proposal to purchase bank acceptances for Federal Reserve account.

He suggested that the Federal Open Market Committee terminate the practice of establishing a minimum buying rate on bankers' acceptances at this time.

Chairman Martin stated that he felt such a proposal should not be acted on without a full discussion unless all members of the Federal Open Market Committee were satisfied that the action was desirable.

Following a brief discussion, it was agreed unanimously that no action would be taken at this meeting with respect to the minimum rate on bankers' acceptances, with the understanding that the memoranda referred to above would be given consideration at the next meeting of the Committee.

In response to Chairman Martin's inquiry regarding instructions to be issued by the Committee, Mr. Rouse stated that it appeared probable that, as a result of the usual forces and the reduction in reserve requirements, there would be a very large volume of free reserves available during July and August, and he raised the question whether they should be left there or taken up through permitting some run-off in System holdings of bills.

Chairman Martin stated that he understood it to be the sense of the meeting that the Committee pursue a policy of active ease, recognizing that there was a division of thought as to the degree of ease that would be desirable, this question, however, to be left in the hands of the executive committee. It was understood, he said, that the full Committee was not pinpointing any specific amount of free reserves that should be maintained in the market in carrying out a policy of active ease. Chairman Martin also said that in the event there were clear signs of inflation developing, the Committee might wish to change its policy from one of active ease in which event it might be desirable to call a meeting of the full Committee prior to the time the next meeting ordinarily would take place.

There was unanimous agreement with Chairman Martin's statement.

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 xecutive 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.

Mr. C. S. Young stated that the Conference of Presidents had not set a time for its next meeting although it had been suggested that it might be deferred until the time of the American Bankers Association's annual convention to be held at Atlantic City, New Jersey, October 17-21, 1954.

Chairman Martin felt that it would not be desirable to defer the next meeting of the Open Market Committee until October and there was agreement with his suggestion that no date be set at this time but that the meeting be subject to call.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary