A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, April 13, 1954, at 10:40 a.m.

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

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Willis, Secretary, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on March 30, 1954 were approved.

Before this meeting there had been sent to the members of the committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period March 30 to April 8, 1954, inclusive, and at this meeting there was distributed a supplemental report covering commitments executed April 9-12, 1954 inclusive. Mr. Rouse commented briefly on the reports, copies of which have been placed in the files of the Federal Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, transactions in the System account during the period March 30-April 12, 1954, inclusive, were approved, ratified, and confirmed.

Reference was made to the memorandum relating to bankers' acceptances dated March 25, 1954 and to the discussion of that memorandum at the meeting of the committee on March 30. Mr. Robertson stated that he had not completed his study of bankers' acceptances and would appreciate having the matter carried over for discussion at a later meeting. There was agreement with this suggestion.

Mr. Young reviewed recent economic and financial developments along the lines of a staff memorandum dated April 9, 1954, copies of which had been distributed before this meeting. Mr. Young stated that the recession in economic activity seemed to be slowing down, although some further decrease had appeared during March. During a discussion of his review and in response to question from Mr. Sproul, Mr. Young stated that there was some evidence that terms on consumer credit loans were being extended by the larger and traditionally more conservative grantors of this type of credit outside the banking field, and that this easing of terms applied both to lengthening of maturities and lowering of down payments. Mr. Young also noted that new private housing starts during the month of March were estimated at

96,000 units, an increase over levels of other recent months and approximately the same as in the corresponding month a year ago.

Mr. Thomas, in commenting on the banking and credit situation, stated that the latest figures for weekly reporting member banks showed a larger increase in total loans and investments than during the corresponding week a year ago, owing to a sharper increase in holdings of Government securities. Loans, other than interbank, declined further compared with an increase in the same week a year ago. Thus far during 1954, loan demand has been more moderate than last year, while banks have decreased their Government securities holdings much less this year than last. The reserve position of banks had been fairly easy until the last week, Mr. Thomas said, when it became tighter primarily because Treasury balances at the Federal Reserve Banks were higher than had been expected, reflecting a slower outflow of Treasury payments than anticipated. In the absence of System operations, Mr. Thomas thought free reserves might build up to around $600 million and remain at that level or higher for the next several weeks. There would not appear to be much occasion for action by the System open market account one way or the other unless it seemed desirable to absorb some of the reserves that would be in the market.

Mr. Rouse stated that the reserve picture appeared to him to be about as Mr. Thomas had estimated. Mr. Rouse anticipated free reserves would increase during the remainder of this week and might run up to 3/4 of a billion dollars by the end of the week. He also stated that there had been some large capital issues and most of the funds from those issues were going into short-term Government securities. There had been a little picking up in both corporate and municipal issues, he said, but there was no problem in obtaining funds to purchase such issues if they were priced in line with the market. Mr. Rouse then referred to the Treasury's financing needs and he commented briefly on the types of short-term securities which he felt might preferably be issued to take care of these needs later this month. The size of the Treasury's need was not sufficient, Mr. Rouse said, to cause any difficulty in carrying on System operations, nor would the Treasury's needs seem to call for any action on the part of t'e committee to assist in its financing prior to June.

Chairman Martin suggested that in connection with discussion of prospective open market operations, there also be a discussion of the discount rate. He stated that the directors of the Federal Reserve Bank of Chicago had acted at the meeting of that Bank last week to reduce the discount rate from 1-3/4 per cent to 1-1/2 per cent, that the Board of Governors had considered the matter and was disposed to approve the action taken by the directors of the Chicago Bank, but that because of the interrelationship between discount rate, reserve requirements, and open market operations, the Board would appreciate having the benefit of the views of all members of the executive committee before taking definite action with respect to the Chicago rate.

Mr. Sproul stated that the economy seemed to be performing well and while it was not "out of the woods" it almost certainly had not gotten "further into the woods" recently. A gradual orderly readjustment was continuing, Mr. Sproul felt, with some light to be seen through the trees. While signs and portents continued pretty evenly balanced, Mr. Sproul felt it perhaps significant that there had not been time to see the results of the recent reduction in excise taxes which had brought about reductions in price to the consumer on a number of items and which might spur consumer buying generally. Price reductions in sticky lines presumably should be a part of economic readjustment. Mr. Sproul felt it difficult to see what further credit policy action might accomplish at this stage in order to facilitate an orderly readjustment in the economy. Banks were now operating in light of fact and assurance of easy money. What was sometimes referred to as tightness in reality was a temporary money market disappearance of great ease, which could be met best by open market operations, including the use of re-purchase agreements. Mr. Sproul thought there were accumulating signs of some increase in flexibility in the money market under the pressure of credit policy and competitive seeking of business. Reduction in the prime lending rate, reduction in acceptance rates, and now a reduction in bank lending rates on short-term Governments were all indications that the market was getting away from "administered" rates.

With respect to the discount rate, Mr. Sproul felt that there was not too much on which to base policy. He was not surprised at the action of the directors of the Federal Reserve Bank of Chicago, and he assumed that they were proceeding on the basis of "feel" rather than definite information or guide posts. Banks were practically out of debt so that there was nothing to press against there. The economic situation was still adjusting in an orderly manner and was unlikely to be responsive at this stage to further rate reduction, which merely reaffirmed what had already been made a fact by open market operations. The apparent lack of alignment of the discount rate with the Treasury bill rate, he said, might indicate that the bill rate was not a wholly reliable indicator because of special factors affecting the Treasury bill market. Mr. Sproul's hunch was that it would be more effective if reduction in the discount rate came at a time of further signs of upturn when the action might give impetus to recovery. This, however, he did not think was clear enough to argue strongly that the Board of Governors should veto or postpone action by a Federal Reserve Bank which thought that it had a good case for a reduction in the rate at this time.

Mr. Williams thought that a reduction in the discount rate might, as he indicated at the meeting two weeks ago, be more effective if it could come a little later when there were signs that an upturn in economic activity had started and when the discount rate reduction might give a push to such upturn.

Mr. Robertson asked what importance should be attached to having uniform discount rates at the twelve Federal Reserve Banks, and Mr. Sproul stated that in his opinion uniform rates were of no importance at the present time when there was a continuation of monetary ease and relatively little use was being made of the discount facility. It was Mr. Sproul's opinion, however, that if a reduction in the rate of one of the Reserve Banks were to be approved shortly the rates at the other Reserve Banks would soon be reduced so that the System would get uniformity. Mr. Sproul also expressed the opinion, in response to a further question from Mr. Robertson, that approval of a lower discount rate at some of the Reserve Banks at this time should have no effect on the amount of free reserves that the Open Market Committee would wish to maintain under current conditions. He would be inclined to agree with Mr. Williams' view that a reduction in the discount rate would be more effective later when it might add to a recovery movement in the economy, rather than as an action taken at this stage to combat a downward tendency in economic activity.

Chairman Martin noted that the discount rate was currently out of line with other open market money rates such as the rate on Treasury bills. He did not think a reduction in the rate would have much effect at this time and stated that one question was whether the matter was of sufficient importance to justify the Board of Governors overruling a decision which had been taken by the board of directors of a Federal Reserve Bank. He questioned whether it was desirable for the Board of Governors to suggest that the action be delayed for a couple of weeks on the assumption that its judgment as to the effect of a change in the discount rate was better under these circumstances than that of the directors of the Reserve Bank proposing the change for its particular region.

Mr. Szymczak stated that on the basis of his discussions recently with representatives of the Federal Reserve Bank of Chicago, the discount rate reduction proposed by that Bank was only a step toward action to reduce reserve requirements at central reserve cities to the same level that applied at reserve cities.

Following some further discussion of the discount rate, Chairman Martin turned to the question of the general policy of active ease of the Federal Open Market Committee and inquired whether any of the members of the executive committee felt that there should be a modification of the committee's operations designed to carry out this policy. Should there be less ease, or should the executive committee take steps to bring about greater ease in the money market?

Mr. Robertson suggested that, in view of the current volume of free reserves and indications of a greater volume of free reserves during the next several weeks, the committee might wish to have in mind maintenance of free reserves somewhere in the range of $400 to $600 million until the next meeting. He did not think there should be concern if free reserves were somewhat higher than in the past two weeks when the goal had been between $300 and $500 million.

Mr. Rouse stated that he could see no need for a higher goal than the committee had set for the past two weeks, adding the comment that if free reserves rose above the $500 million level sales of Treasury bills could be made.

Mr. Sproul stated that he would retain a minimum goal figure of around $300 million of free reserves but would not try to hold down to the $500 million figure mentioned.

Chairman Martin felt there was a real question whether the committee would do more harm than good by trying to make sales or to adjust reserves within too close a range. He agreed with Mr. Sproul's comment that the estimates of free reserves for the next two weeks did not look alarming.

Mr. Robertson agreed with this view, adding the comment that, in the event free reserves rose to figures well above those indicated by the current estimates, he would see no harm in selling some securities from the System account.

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the executive committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to promoting growth and stability in the economy by actively maintaining a condition of ease in the money market, and (c) to the practical administration of the account; provided that the total amount of securities in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than $500 million;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amount of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall

be made as nearly as may be practicable at the prices currently quoted in the open market.

Mr. Riefler stated that he had received a telephone call last week from Mr. Keating, Secretary of the Indiana Toll Road Commission, who stated that the commission had received payment of approximately $250 million in connection with an issue of bonds and that the Chairman of the commission had raised the question whether arrangements might be made to obtain directly from the Open Market Committee Treasury certificates as a means of investing these funds. Mr. Riefler said that he expressed to Mr. Keating the opinion that the Open Market Committee would not be disposed to make a special sale of Treasury certificates but that he could not speak for the committee. He also stated that in further discussion, Mr. Keating indicated he would like to address a letter to the committee regarding this question and Mr. Riefler suggested that he send it either to Mr. Rouse as Manager of the Account or to the Secretary of the Committee.

In a discussion of this question, Chairman Martin stated that he could see no objection to receiving the letter and responding to it, but that his view would be that the Committee would not wish to engage in any special transactions such as Mr. Keating inquired about.

It was agreed that the next meeting of the executive committee would be held at 10:45 a.m. on Tuesday, April 27, 1954, Chairman Martin noting that he would be in Minneapolis on the night of April 26 and that he might not be able to return to Washington in time for the meeting.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary