

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 Monday, June 6, 1955, at 10:45 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Leach
Mr. Vardaman
Mr. Balderston, Alternate for Mr. Mills

Messrs. Fulton, Irons, Robertson, and Szymczak,
Members of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Daane and Young, Associate Economists
Mr. Sherman, Assistant Secretary, Board of
Governors
Mr. Koch, Assistant Director, Division of Re-
search and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section,
Division of Research and Statistics, Board
of Governors
Mr. Roosa, Assistant Vice President, Federal
Reserve Bank of New York
Mr. Gaines, Securities Department, Federal Re-
serve Bank of New York

Upon motion duly made and seconded, and
by unanimous vote, the minutes of the meeting
of the executive committee held on May 24,
1955, were approved.

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 May 24-June 1, 1955, and at this meeting there was distributed a supplementary report covering

6/6/55

-2-

commitments on June 2 and 3, 1955, inclusive. Copies of these reports have been placed in the files of the Federal Open Market Committee.

Mr. Roosa commented that operations for the System account had been generally successful in keeping an "even keel" since the meeting of the executive committee on May 24, although there had been negative free reserves averaging \$117 million daily during the week ending June 1. However, no appreciable change in the tone of the money market resulted from the negative volume of free reserves during that week. Mr. Roosa went on to say that at times it seemed best to delay arranging for transactions for the System account while waiting for signals in the market indicating whether operations were necessary. On balance, it was his view that operations since the last meeting had come out with about the tone in the market that was desired by the committee.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period May 24-June 3, 1955, inclusive, were approved, ratified, and confirmed.

Mr. Young made a statement on the economic situation concerning which a staff memorandum was distributed under date of June 3, 1955. He stated that the economic picture continued to be one of high-level strength in output and employment, with price averages stable and business and investment psychology decidedly optimistic. Industrial production, in view of late May tendencies, may show further advance over-all in June. All

6/6/55

-3-

industrial groups in the Board's index now show an advance in the level of activity since the summer of 1954. In recent months, a strong upswing has developed in the groups of industries in which lower defense production had been a drag-force in earlier months.

Stocks of new automobiles rose further early in May but leveled off thereafter. Used car sales were above the April rate and stocks held about unchanged. Used car prices recently have been drifting slightly downward. Department store sales of consumer durable goods in May indicate that strength is being maintained in the household appliance market. Although easing of instalment credit terms continues, the relative importance of credit sales has not shown significant increase in recent months. Sales of non-durables have also been strong. Manufacturers' new orders again featured a sharp rise in April, about comparable to the March increase, and were substantially above sales. Business inventories, seasonally adjusted, have been showing modest rise, about equally divided between manufacturing and distribution, but are still some \$3-1/2 billion smaller than the 1953 fall peak.

The big news of this meeting's review is pre-release information on business plans to spend for new plant and equipment. The SEC-Commerce Survey taken in May shows a sharp rise in expected expenditures in the second and third quarters of this year, indicating that the third quarter will be up an eighth from the first quarter. If this is realized, such

6/6/55

-4-

expenditures in the third quarter would equal the high rate of two years ago. Value of construction contracts awarded in May indicates maintenance in months ahead of recent high construction levels.

Preliminary data for May indicate that employment rose further and unemployment declined during that month. Price averages at wholesale and retail continue a sidewise trend.

In industrial areas abroad, information relating to April shows further steady advance. Recent increases in money rates in countries suffering balance-of-payment problems (such as Austria and Scandinavian countries) reflect an abandonment of stubbornly adhered to cheap money policies.

In response to a question from Mr. Vardaman, Mr. Young stated that the expected increases in plant expenditures during the second and third quarters of this year were rather general, with manufacturing showing a sizeable pick-up in such plans. Mr. Young also commented in response to a question from Mr. Leach that accurate figures of the reduction in unemployment were not available but that it appeared that the decrease during May was more than the usual seasonal amount, which was in the neighborhood of 250,000 persons. This would suggest a total of unemployed of somewhere around 2,600,000 persons.

Mr. Thomas stated that although new issues of corporate securities increased in the first part of June, the calendar shows a decline in the

6/6/55

-5-

latter part of the month and for the month as a whole corporate issues probably will be down somewhat from May as well as from June of 1954. Issues of State and local governments will be larger in June than in May but less than in June 1954. The total of both groups of issues for the half year will be about the same as in the corresponding period last year. Stock prices have increased recently, Mr. Thomas said, and the market has been fairly strong but not exuberant. Prices are still below the levels at the end of April. Loans to brokers and dealers in securities have shown no striking changes during recent weeks.

The Treasury balance fluctuated considerably during May and will also fluctuate rather widely in June, Mr. Thomas said, partly because of the tax collections during the current month. In general, this would increase the problem of trying to have calls by the Treasury made so as to avoid having the Treasury's balance at the Federal Reserve Banks build up too much. In any event, considerable effect could be anticipated on the level of reserves during the period June 12-21.

Bank loans continued to expand during May, contrary to the usual seasonal movement and in contrast to developments last year, Mr. Thomas said. While sales finance companies have been fairly substantial borrowers, their loans have declined during the past two weeks, but other businesses continued to expand their borrowings recently, indicating that there might be some building up of inventories and perhaps some increase

6/6/55

-6-

in customers receivables. Real estate and other loans have continued to increase.

More than offsetting the increase in loans has been a further decline in bank holdings of Government securities. The net result was a decrease in deposits during May, at least at city banks, in contrast to the increase that occurred last year. This followed a substantial increase during April. Since the end of January, deposit growth has been quite moderate, Mr. Thomas said, reflecting bank sales of Government securities probably bought by business concerns which were holding liquid assets in the form of Treasury bills rather than of bank deposits.

Mr. Thomas commented that the reserve position of banks had been tightening gradually since mid-May. The striking thing is that this has occurred outside New York City and is not yet reflected in money rates. Country banks are in a particularly tight position, pressure having increased toward the end of May. Whether these banks will continue to borrow or whether they will start selling bills or other assets is uncertain at this stage.

Mr. Thomas noted that staff estimates at the Board indicated an approximate balance of free reserves during the current week and next week with an increase of \$100 million or so in the week of June 22. There would be a sharp decline in free reserves in the latter part of June. It looked as though a fairly even keel might be continued during the next two weeks.

6/6/55

-7-

Chairman Martin stated that he felt the committee was faced with a repeat performance of the decisions reached two weeks ago regarding operations for the System account. In connection with projections of reserves, his opinion was that it would be more realistic to assume that the Treasury financing this summer would be a "one-bite" rather than a "two-bite" operation.

None of the other members of the committee indicated that their views of the general credit situation differed from that expressed by the Chairman (i.e., that there had been almost no change in the over-all picture or in the emphasis to be placed on any particular phase since the meeting on May 24), and Chairman Martin commented that he assumed that operations for the System account should continue to aim for free reserves ranging around zero, to \$100 million plus or minus.

Mr. Sproul said that he understood the May 24 instruction to call for free reserves ranging around zero, without necessarily setting a fixed limit of \$100 million one way or the other. While the projections indicated that free reserves might be kept within that fixed range, he doubted that the committee would wish to confine its instructions to such a figure, since the distribution of reserves and the magnitude of borrowings and movements in the Treasury balance would have a bearing on the situation.

Mr. Robertson said he had understood the instruction to call for free reserves ranging around zero, give or take \$100 million or so, and

6/6/55

-8-

Mr. Balderston said this was also his understanding.

Chairman Martin suggested that, unless there was objection, this be the general view.

In response to a question from Chairman Martin, Mr. Sproul said that he saw nothing in the business or credit situation to suggest a change at this time in credit policy or in the committee's program as compared with what was discussed at the meeting two weeks ago. The committee presumably would have another meeting before it was faced with situations that might be different in terms of either the range of free reserves or Treasury financing.

Mr. Leach suggested that the objectives of the committee in coming months should be to supply enough reserves to take care of seasonal and growth needs but not to contribute to a boom. That implied pressure so that banks would discriminate against speculative borrowing or excessive use of credit in instalment or mortgage loans. He would not anticipate any open market operations during the next two weeks but would expect some increase in the volume of discounts. Changes in the volume of discounts, he said, might be the most important single item to observe as an indication of changes in the credit situation during the near-term future.

Mr. Leach also said that he had had some discussion with examiners of the Federal Reserve Bank of Richmond regarding the quality of loans and had come to the conclusion that it might be desirable for System authorities to have from time to time reports from the senior officers in charge

6/6/55

-9-

of examination departments as to whether they felt there had been any change in the attitude of bankers towards applicants for marginal loans.

Mr. Vardaman stated that he had just returned from a 2500 mile trip during which he visited three Federal Reserve Districts. On this trip he had not found the same optimistic feeling that he seemed to see at the time the full Committee met on May 10. It seemed to him that the psychological approach now was one of extreme caution on the part of small town bankers and merchants. He did not find the same avid desire for expansion in inventories or for "digging up" new loans that he seemed to see thirty to sixty days ago. He felt this was healthy. Whether the committee's position currently was psychologically too tight, he was not sure, but he stated that he was not in a position to suggest that operations should "loosen up" at this point. Mr. Vardaman went on to say that he hoped the picture would get clearer before the next meeting of the committee but that he did not think the boom psychology at present was nearly as frothy and boiling as it was forty-five to sixty days ago.

Mr. Robertson stated that judging solely from the comments presented in the economic and credit review this morning, he felt the situation justified the degree of pressure the committee had kept on the credit situation over the past six weeks. His feeling was one of doubt as to whether this pressure was adequate, but he did not feel so strongly on this point that he would wish to veer away from the existing program. Under no circumstance, however, would he wish to "loosen up" in any degree.

6/6/55

-10-

Mr. Fulton said that he agreed with Mr. Robertson's comments. Active demand for loans in the Cleveland District continued and banks were taking all that they could. The deterrent to their taking any more was the fact that if they did, it would be necessary for them to sell Government bonds at a loss. The two areas of greatest pressure were in the consumer and mortgage credit fields where there was a great demand for loans. However, Mr. Fulton did not think that there had been any deterioration in terms on consumer credit; in fact, he had the feeling that the slightly greater tightness in the general credit situation was having a salutary effect on credits. Mr. Fulton would not increase the pressure at the present time.

Mr. Irons stated that both the national picture and the picture in the Dallas District seemed to him to be about the same presently as at the time of the previous meeting. In the Dallas District, he did not feel there was a boom psychology but he did think there was increasing confidence that this year would be a "best" or "very near best." This feeling was more evident at present than it had been three or four months ago when businessmen in the Dallas area were waiting to see what would happen in the third and fourth quarters of this year. There was now confidence that demand for loans would continue very strong. Some selling of Government securities was taking place but not very much, and discounts continued at a very low level at the Dallas Bank. Country banks apparently

6/6/55

-11-

were very liquid and were not in a position of having to discount. On the whole, Mr. Irons stated that he felt much as Mr. Robertson had indicated: he would not make any change in the committee's present program, but if there were to be any shift he would be inclined toward a little more restriction. He definitely did not think this was a time for easing the situation.

Mr. Szymczak said that he had no comment to add, and Mr. Balderston stated that he had nothing additional to say regarding the current business or credit situation. Mr. Balderston did say, however, that as he had indicated at the meeting two weeks ago, he was still concerned about integration of the Open Market Committee's policy and operations with the Treasury's financing program.

Chairman Martin said that he concurred in the general view as to the business and credit situation and the program that should be followed by the committee, as indicated by Messrs. Robertson and Irons, but he was not sufficiently firm in that view to wish to have deliberate tightening during the next couple of weeks. The current picture is strong, he said, and has continued that way for a long time. The Chairman felt that, if anything, the committee had been a little on the easy side but on the whole the program was progressing satisfactorily.

With respect to Mr. Balderston's comment on Treasury financing, Chairman Martin said that if borrowings at the Reserve Banks were to increase during the next few months and if there should be a further upsurge

6/6/55

-12-

in the general situation, the System should be giving serious consideration to another increase in discount rates. There were only a few times, he noted, when an increase in the discount rate could be made in view of the difficult financing program the Treasury faced. Chairman Martin also stated that he had discussed informally with representatives of the Treasury the views expressed at the last meeting of the executive committee to the effect that there was at least doubt as to whether it would be possible to make a reduction in reserve requirements in this period. He also had expressed to the Treasury his view that there was a real problem in the forthcoming financing: we were coming out from the shadow of a Treasury failure and it would be very difficult to price the next Treasury issue unless the price was substantially over the market. The expectations of the market, he said, were for a rise in the business pattern but conditions could change and alter the situation before the announcement of the financing. Chairman Martin added the comment that he subscribed to the view that the Open Market Committee should not dictate to the Treasury what debt management policy should be.

Chairman Martin then turned to the instructions to be given to the New York Bank and inquired whether any change was needed at this time.

Mr. Sproul stated that in the period beginning June 15 there would be a three- or four-day bulge in free reserves. He agreed with what had been said about the virtue of ranging around a zero free reserve pattern and watching member bank borrowing. However, an instruction to stay

6/6/55

-13-

within a \$100 million variation from zero might involve some sales from the System account during this three- to four-day bulge, with subsequent purchases of securities to avoid an excessive deficiency in free reserves. Mr. Sproul felt it might be inadvisable to step in during the three- or four-day period to which he referred, and that if this were contemplated in the committee's instructions to the New York Bank it might be attributing too much precision to projections of free reserves and to finesse in operations for the System account. He would prefer to have an understanding that if the situation developed as the committee now saw it, there would be no operations for the System account during the next two weeks.

Mr. Roosa stated that the bulge from about June 15 to 18 might prove to be much lower than was now projected. However, the various factors affecting reserves would show such massive movements that any projections of net free reserves made at this time might be considered irrelevant. Mr. Roosa felt that any bank which obtained reserves in these few days would know that they were the result of accidental factors affecting the Treasury's balance, and he did not think that any bank would act on those reserves knowing that they were of a very temporary nature. There might be some surplus of Federal funds during that week and a very low rate on those funds. His suggestion was that if such a bulge does occur, it should be looked upon as no more than a temporary aberration from the committee's thinking. He reiterated that it was not possible to determine

6/6/55

-14-

at this stage just what the net result of movements during this period might be.

Mr. Thomas said that he thought this was the predicament the committee was in and that there was nothing that could be done about it. He agreed with Mr. Sproul that at that time there was no objection to having fairly large free reserves. Mr. Thomas also said that keeping an even keel did not mean doing away with the fluctuations that might be expected to occur within a month. For example, country banks build up substantial free reserves in mid-month, and he did not feel that the even keel concept meant eliminating these regular short-time fluctuations.

Chairman Martin noted that there were some bills which could be permitted to run off during these few days and that the System account could buy back additional bills later if that seemed necessary. In response to this comment, Mr. Roosa noted that it was necessary for the New York Bank to decide four days ahead of time whether it was going to permit those bills to run off or not.

Mr. Sproul commented that the point was that the bulge in mid-June would be associated with the tax payment date. If the committee maintained its general policy and if the excess reserves did not get into the credit stream, there would be no change in credit policy and the additional reserves that might appear during the three- or four-day period would have no effect on the general credit situation. In response to a question from

6/6/55

-15-

Mr. Robertson, he said that there had been downward bulges in the past and that while each situation must be considered separately, he would have the same general approach to a downward bulge although permitting an upward bulge to last for three or four days involved less danger at this time than a similar bulge on the downward side because of the expectations of tighter credit policy that a downward bulge might encourage.

Mr. Thomas commented that one of the bulges on the downward side had just ended and that it had not exerted pressure to the degree that the figures themselves would have indicated. To the extent that pressure was exerted in such periods, he thought operations in the market could take care of the situation.

Mr. Roosa remarked that in his opening comments he was in effect meeting in advance a possible criticism for having let free reserves get down to a negative \$117 million in the last week of May. As to the three- or four-day period after June 15, Mr. Roosa felt that it should be considered as part of a longer period during which there might be swings down and up. An instruction that was limited to swings of \$100 million either way might be difficult to apply since there might be intra-monthly swings of as much as \$500 million.

Mr. Thomas said that if there were more bills in the market it might be possible for the System to adjust more smoothly for swings of the type referred to by Mr. Sproul through increased use of repurchase agreements. In response to a question from Chairman Martin as to how many more

6/6/55

-16-

bills the market could handle, Mr. Thomas stated that while this was a matter of opinion he thought that the market could readily handle, at the least, \$4 billion more bills than are currently outstanding. He personally would start with \$6 billion since he thought it might take as much as \$9 or \$10 billion.

Mr. Roosa described briefly an additional technique in the handling of the Treasury's balances at the Reserve Banks that would be tried during June for the first time in an attempt to smooth the fluctuations in free reserves resulting from changes in such accounts, and Chairman Martin remarked that this was a very desirable development which represented real progress toward helping to carry out credit policy. Mr. Roosa also stated in response to a question from the Chairman that he thought no change in the instructions to the New York Bank was needed at this time.

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 fostering growth and stability in the economy by maintaining conditions in the money market that would avoid the development of unsustainable expansion, and (c) to the practical administration of the account; provided that the total amount of securities in the System account

6/6/55

-17-

(including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than \$750 million;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$750 million;

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

Chairman Martin referred to the staff memorandum distributed under date of May 20, 1955, on Role and Status of Short-term Debt in Treasury Debt Management, and he invited further comments on the matter which had been discussed at the meeting on May 24.

Mr. Sproul stated that the staff memorandum raised basic questions with respect to debt management and credit policy--particularly open market operations--and with respect to the relationships between debt management and credit policy. These are matters, he said, on which we cannot afford to "go off half-cocked." Mr. Sproul then made a statement substantially as follows:

It may be assumed that the Treasury and the Federal Reserve would agree that they have a joint concern with the

6/6/55

-18-

liquidity of both the banking system and of the whole economy, in terms of the proportion of short-term obligations available in the debt structure. These are important aspects of sound financial markets and general economic stability and growth. But we have no adequate and accepted measures of such liquidity and emphasis at present differs as between Treasury policy and the staff memorandum as to where the balance and responsibility lies. The Treasury with some right on its side emphasizes the increased manageability, in a routine sense, of a debt structure which is not too heavily weighted at the short end and also emphasizes with a glance at us, the advantages of not having to come to the market too frequently. The staff memorandum picks time periods and arguments which emphasize particularly the desirability of a larger issue of Treasury bills to promote liquidity. Both presentations, perhaps, do not pay enough attention to the desirability and possibility of the private economy providing more of its own short-term market debt instruments.

We should be particularly concerned, however, with the respective roles of credit policy and debt management in helping to maintain what may come to be considered an appropriate degree of liquidity in the banking system and in the economy. Does not the primary responsibility rest with the central bank? If so, shouldn't we be sure that we are employing all of the powers available to us to influence liquidity before petitioning the Treasury to take over this responsibility through debt management? That gets us right into the area of open market operations. The Treasury may have gone too fast, if not too far, in reducing the volume of its shortest-term securities, but we may have gone too far, if not too fast, in limiting our own ability to affect liquidity through open market operations.

I return to where I began--this is not a problem we can settle with one bright idea. It is going to require thorough study. We have begun such a study. I assume the Board's staff is pursuing its studies, and I think other Federal Reserve Banks should be encouraged to study the problem. Similarly, the Treasury should be encouraged to study it. The results of such studies could then be brought together and considered jointly in the hope and expectation that a reasonable and coordinated approach on the part of the Treasury and the Federal Reserve System will be possible.

6/6/55

-19-

Chairman Martin said that Mr. Sproul's remarks represented a real contribution to discussion of this topic. He suggested that it be understood that the members of the committee would continue to study the matter and that it would be discussed at other meetings from time to time.

It was agreed that the next meeting of the executive committee would be held on Wednesday, June 22, 1955, following the meeting of the full Committee scheduled to be held on that day.

Thereupon the meeting adjourned.


Secretary