

FORTY-FIRST

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1954

be rescinded and that the Committee rely on the policy statement which had been adopted by unanimous vote in March 1953 that "it is not now the policy of the Committee to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 money markets)." In the absence of a second to Mr. Sproul's motion, it was not brought to a vote and the statement of policy set forth above was continued.

3. Minimum Buying Rate on Bankers' Acceptances.

At this meeting, the action taken by the members of the Committee effective February 5, 1954, reducing the minimum buying rate on prime eligible bankers' acceptances from 2 per cent to 1¾ per cent, was approved, ratified, and confirmed.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Evans, Leedy, Mills, Robertson, Szymczak, Williams, and Young. Votes against this action: none.

The reduction in the minimum buying rate on bankers' acceptances was in response to a recommendation from the Manager of the System Open Market Account on February 4, 1954, that this rate be reduced as a reflection of the existing and developing pattern of interest rates in general, which had been declining in response to the Federal Reserve System's recent policy of actively maintaining a condition of ease in the money market. This pattern included reductions in the Federal Reserve Bank discount rates from 2 per cent to 1¾ per cent effective at several Federal Reserve Banks on February 5 and at the remaining Reserve Banks within a few days thereafter.

JUNE 23, 1954

1. Authority to Effect Transactions in System Account.

At this meeting, the Committee renewed without change the directive to the executive committee which was adopted in December 1953 and renewed without change at the meeting on March 3, 1954. The directive is set forth on page 92 of this report.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Leedy, Mills, Robertson, Szymczak, Vardaman, Williams, and Young. Votes against this action: none.

The economic outlook had improved somewhat between the March and June meetings of the Committee. In March, recession was the dominant characteristic of industrial and commercial activity, and there was serious question whether the recessionary tendency might become self-feeding and cumulative, although there was also a view that an early end to the economic

decline might be anticipated. In that atmosphere, the Committee had continued a policy of actively supplying reserves to the market.

By June, it was apparent that there had been a slackening of the decline in production and consumption. In fact, a slight rise had taken place in industrial output, construction activity had advanced further to record levels, and the decline in employment had slackened. Prices had continued to show little change. Production abroad had continued to rise. On the other hand, elements in the situation clouding the outlook included the continued contraction in outlays of the Federal Government for national security, a decline in farm income, and a decline in the income of industrial workers. The Committee concluded that, under the circumstances, monetary policy continued to bear a heavy countercyclical responsibility. It felt that the policy of "active ease" which had been maintained for some months had facilitated and made possible the financing of business without causing distortions in the credit and capital markets. In the Committee's opinion such revival as had occurred was insufficient to call for modification of the policy of active ease and, therefore, action was taken to renew without modification the directive calling for a policy of actively promoting ease in the money market. At the same time the Committee noted that the Board of Governors of the Federal Reserve System had acted in June to reduce the amount of reserves which member banks are required to carry against their deposits, such reductions to become effective during June, July, and August. In this connection, it was suggested that the prospective reduction in reserve requirements should be observed carefully and that, while the Committee's existing general policy of "active ease" should be continued, in the interests of avoiding undesirable redundancy in the money market it would be desirable to absorb temporarily some of the excess reserves that would be released to the market during the summer months as a result of the action taken by the Board of Governors.

2. Minimum Buying Rate on Bankers' Acceptances.

The Committee approved, ratified, and confirmed the action taken by the members of the Federal Open Market Committee, effective April 16, 1954, reducing from 1¾ per cent to 1½ per cent the minimum buying rate on prime eligible bankers' acceptances.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Leedy, Mills, Robertson, Szymczak, Vardaman, Williams, and Young. Votes against this action: none.

This further reduction in the minimum buying rate on bankers' acceptances was made at the time the discount rates of the Federal Reserve Banks of Chicago (April 14) and New York and San Francisco (April 16) were reduced from 1¾ per cent to 1½ per cent, which reductions were followed shortly by corresponding reductions in discount rates at all other Federal Reserve Banks. As was the case with the reduction effective February 5,

1954, this decrease in the minimum buying rate was in recognition of the existing market conditions and developments and was made in accordance with the Committee's general policy of actively promoting a condition of ease in the money market.

3. Repurchase Agreements.

The Committee modified the authority granted to the Federal Reserve Banks to enter into repurchase agreements with nonbank dealers in United States Government securities so as to provide that the rates or rate ranges on such repurchase agreements would be prescribed by the executive committee rather than by the Manager of the System Open Market Account, as had been the case since mid-1952. This action did not modify the policy with respect to the use of repurchase agreements, which remained subject to the general limitation adopted on July 22, 1952, that in no event should the effective rate be below whichever was 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 3-month Treasury bills.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Leedy, Mills, Robertson, Szymczak, Vardaman, Williams, and Young. Votes against this action: none.

SEPTEMBER 22, 1954

1. Authority to Effect Transactions in System Account.

The Committee again renewed without change the directive to the executive committee which was adopted in December 1953, and continued without change at the meetings on March 3 and June 23, 1954. This directive, which provided as the current credit policy of the Committee that transactions in the account should be with a view, among other things, to "promoting growth and stability in the economy by actively maintaining a condition of ease in the money market," is set forth on page 92 of this report.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Bryan, Leedy, Miller, Mills, Robertson, Szymczak, Vardaman, Williams, and Young. Votes against this action: none.

The Committee gave attention to developments in the economy since its June meeting, particularly to the "sidewise" movement that had been taking place during the summer months, and to the question of how long the economy might continue such a movement before showing a definite upturn or downturn. The Committee felt that the policy of "active ease" that had been pursued since late 1953 had helped to maintain a stable economic and business situation which, in turn, had given encouragement to investors.

It was the view of the Committee at this time that the ready availability and low cost of bank credit and capital funds had maintained a monetary climate favorable to business expansion and high employment. Although the economy had been on a plateau for several months, following cessation of the moderate decline that had taken place in output and employment between the summer of 1953 and late spring of 1954, there was some evidence that there might be an upturn in the autumn months. Inventory liquidation had continued, but further declines in Government defense outlays were expected to be small, private capital investment and State and local capital outlays were holding up well, and consumer spending had remained high.

At the time of this meeting there had not been an upturn in economic activity which appeared to warrant any reduction in the flow of money and credit and the Committee believed that in supplying reserves to the market in the weeks ahead, any doubts should be resolved on the side of ease rather than the reverse. The Committee recognized that credit policy was only one part of the whole complex, but it felt that the economic outlook at the time warranted a continuation of the existing credit policy of actively maintaining a condition of ease in the money market, and it therefore renewed its directive in the same form that had been approved at the three preceding meetings.

DECEMBER 7, 1954

1. Authority to Effect Transactions in System Account.

The following directive to the executive committee was approved:

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 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 billion dollars.