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 Tuesday, December 7, 1954, at 9:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Balderston
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. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. 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. Miller, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York

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

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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 22, 1954, were approved.

> 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 September 22, October 5, October 20, November 9, and November 23, 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 September 22 to December 1, 1954, inclusive, and at this meeting there was distributed a supplementary report covering commitments executed December 2-6, 1954. Copies of both reports have been placed in the files of the Federal Open Market Committee. Mr. Rouse commented briefly on developments during the period covered by the supplementary report.

> Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period September 22-December 6, 1954, inclusive, were approved, ratified, and confirmed.

Members of the staff presented a review of the economic and credit situation and outlook, illustrated by chart slides. Copies of the script of the review subsequently were sent to all members of the Committee, and a copy has been placed in the files of the Federal Open Market Committee.

In commenting on the economic situation, Mr. Ralph Young stated that the big question with which business observers are now concerned is whether a recovery movement is definitely taking form. Following the staff presentation of evidences of recovery, both foreign and domestic, Mr. Young stated that judgment as to the recovery outlook would depend in considerable part on what one thought about expenditure prospects in the area of recent expansion--State and local government outlays, residential building, and consumer takings of both nondurable and durable goods--and also about prospects for outlays in categories which had held down gross national production this past year. Mr. Young thought it possible that national defense outlays would decline much more slowly than had been the case over the past year or so; that expenditures for producers durables would no longer be going down, and that inventories might be accumulated rather than liquidated. Also, it seemed possible that residential construction would be at least maintained and that consumer takings would rise. In addition, Mr. Young noted that Federal fiscal policy since early this year had been on the stimulative side with tax payments by businesses and individuals down more than Federal expenditures, and it was indicated that the Treasury would show a moderate cash deficit in the calendar year 1955 compared with an approximate balance of cash income and outlays in the current calendar year.

Mr. Thomas commented upon credit developments, stating that Federal Reserve policy needed to be in a position of maneuver with respect to the possibility of either a slow recovery over the next twelve months, reaching the 1953 peak level of industrial production by the end of the year; or the possibility of a rapid recovery with second quarter 1953 levels of industrial production reached and even exceeded before mid-1955.

The first alternative would find the economy with still some margin of unemployed resources while the second alternative would no doubt bring problems of unhealthy inventory accumulation and strong upward pressure on prices.

Mr. Thomas stated that one approach might be a shift in policy from one of active ease, which has meant keeping banks generally out of debt to the Federal Reserve, to something like the so-called policy of neutrality followed in 1951 and 1952. That policy meant some bank borrowing to cover temporary needs and larger amounts of borrowing as credit expansion accelerated.

Mr. Thomas also presented data with respect to bank reserve positions in the period immediately ahead, stating that the level of free reserves may continue during the current and following week below or only a little above $400 million. Over the remainder of December additional bank reserves would be supplied by float and other factors but there would be a further increase in required reserves and, in the absence of further open market purchases, average free reserves would probably rise to around $500 million in the last week of the month. Mr. Thomas noted that a large volume of reserves would be supplied by the usual post-Christmas return of currency, that required reserves might also decline substantially, and that free reserves would probably range around $1-1/2 billion by the end of January, unless offset by Federal Reserve open market operations. During February, little further net change in bank reserves was expected. During the next three months ahead there might be an underlying element of expansion in the economy. Because of the existing low level of interest rates and because recent Treasury refunding operations have so materially reduced the liquidity position of banks, any material tightening that might be permitted to occur or be brought about would probably bring prompt response in the interest rate structure. Question may be raised, therefore, not only as to a shift in the direction of policy but also as to some elements of administering that policy.

Chairman Martin stated that the presentation by the staff provided a splendid background for a discussion of open market operations and, while he did not feel that the Committee should be unduly influenced by projections of developments either on the upside or on the downside, he suggested that it have in mind the fact that it had been using the phrase "active ease" in describing its credit policy for some time. At this stage, the Committee should carefully consider the extent to which it wanted to allow the forces of the market to operate. His own thinking, Chairman Martin said, was running in the direction that it was time to re-examine the "active" part of the phrase, "active ease". If there were to be a change in the Committee's policy, any shift in operations should be gradual if it were to be most useful.

Chairman Martin then called upon Mr. Sproul, who made a statement substantially as follows:

1. There is now a basis for mild optimism concerning the economic situation during the next 3 to 6 months. Consumers are taking this view according to the most recent survey of their intentions, and have the income

and the savings to make it effective. The plans for business capital expenditures, in the aggregate, seem to he set at or slightly above the levels of the last months of this year. The plans for State and local expenditures show an increase. The building boom is expected to continue, and a new flood of mortgages will help to keep savings at work. The Federal Treasury is out of the market as a borrower of new money for two or three months (except indirectly through FNMA), but will be running down its balances, and will have to come to the market for new money sometime before the end of the fiscal year.

2. In terms of open market operations, the problem which now faces the System is whether to continue aggressively seeking to promote a condition of ease in the money market, or whether we should take up some of the slack in the credit situation now that the economy seems definitely to have turned upward, or whether we should shift to a policy of restraint. The choice seems to me to lie with the two latter courses; the danger in continuing to pursue the first course is that it might now encourage speculative forces in the economy which could lead to a brief burst of activity and another relapse.

3. There are some surface manifestations of speculation in the economy, for example in the stock market and, perhaps, in the building industry and in the automobile industry in terms of borrowing present sales from future demand. We have been able to find little or no evidence in credit data, however, to support fears of generally unsound speculative developments. Business loans of commercial banks were declining during the first three quarters of 1954, and the relatively modest expansion in the fourth quarter is no more than a reflection of the improved business situation. The investment banking market, in which corporate security issues have been substantially smaller this year than last, has shown no tendency toward a speculative psychology. Real estate credit will probably increase about $12 billion this year compared with less than $10 billion in 1953 and 8.5 billion in 1952. It is possible that the present rate of new construction, stimulated by Government housing policies, may not be sustainable and may be a potential element of weakness. At the same time, real estate credit figures do not seem to signal a speculative situation - real estate values and material and labor costs have recently been no more than steady.

Total consumer credit outstanding after increasing \$4.4 billion in 1952 and \$3.7 billion in 1953, is expected to increase only slightly in 1954. There is yet little indication that consumers are using consumer credit in a speculative manner.

Stock market credit has been going up but is still at historically low levels. We have only figures which indicate trends in the use of credit in the stock market, to be sure, but the figures we have do not give cause for serious concern, even though we feel pretty sure that some speculative fever is getting into the market.

If we seek support for a finding of speculative forces in the economy, therefore, which might bring about a short-lived upturn to be followed by a dangerous set-back actually and psychologically, we have to find it in guesses as to the future, not in present credit conditions.

4. Making some guesses as to the future, in order to formulate timely credit policies, despite its hazards, is part of our job. It is not enough to know what has happened. My own present view is, however, that we do not want to make a guess about the future which is itself too speculative. We are just coming into a recovery phase of economic activity, in which we want to avoid a false speculative upturn, but in which we also want to avoid nipping the bud of real recovery. In such a period no drastic nor dramatic change in credit policy is desirable; whatever change we make should be made so gradually as almost to escape detection. We no longer need to push out reserve funds as aggressively as we have been doing, but we do want to maintain a situation in which credit is readily available and the present or prospective cost of capital is not a deterrent to capital expenditures.

5. The prescription for doing this, I would say, is
   (a) An instruction from the F.O.M.C. to the executive committee which takes out of the present directive the command to be aggressive in maintaining a condition of ease. We should now be aiming at taking some slack out of the market, but not at restraint.
   (b) An instruction from the executive committee to the Manager of the System Open Market Account which aims at a smaller volume of free reserves than we have tried to maintain during the past several months.

(c) Action by the Manager of the System Open Market Account which responds to the feel of the market, within the limit of these authorities, rather than being too closely bound by particular figures of reserves. And the feel of the market will involve responsiveness to signals given by interest rates as to where pressure may be building up, and to signals given by the temper of lenders and borrowers which might influence production, employment, and price levels.

6. If we adopt a policy of taking up some of the slack in the credit situation, we shall have to be particularly careful, I think, not to bring undue pressure on the long-term capital market. Long-term market rates of interest have been rising and are expected by the market to rise somewhat further over the near term. At this stage of economic recovery, a credit policy which discouraged high levels of capital investment would not be warranted. Its effect on employment and unemployment, where the outlook is not too promising in any case, might be dangerous. We want to be alert but not nervous in working the controls.

Mr. Szymczak concurred in the views expressed by Mr. Sproul. The situation was such that the Committee's operations might have to go either way. Therefore, under the Committee's policy of flexibility, to the extent it reduced its sights as to free reserves, that would help carry out monetary policy. However, such a step might have to be reversed as the Committee obtained a clearer view of the economic situation, since at this stage it was not possible to know whether indications of recovery would be sustained. Mr. Szymczak felt that no announcement of a change in the Committee's policy would be desirable at this time, that any reduction in the amount of free reserves from recent levels should be made slowly, and that such reduction should not be of an extent to indicate that the Committee had adopted an entirely different policy which would become evident in the rate structure. In response to a question from Mr. Williams, Mr. Szymczak stated that, by avoiding an announcement, he did not mean that the word "active" should not be eliminated from the full Committee's directive, that what he wanted to avoid was an announcement at this time or action of a magnitude which would indicate to the public that there had been a change in policy.

Chairman Martin said that he felt there was entirely too much general discussion in the Government of policy and possible changes in policy. He illustrated this by reference to stock market margin requirements, saying that he felt that under conditions such as existed today, the Federal Reserve had a real responsibility not to discuss this subject outside System circles. He went on to say that in several instances he had responded to recent requests for comment on the stock market by stating that he had no comment whatsoever, because he did not see how any comment other than that could help but be misconstrued to the advantage or disadvantage of some individuals. He felt that a similar approach should be applied to open market policy and that any discussions of current policy should be kept strictly within System circles.

Mr. Sproul stated that as far as margin requirements were concerned, the New York market was full of rumors regarding margin requirements and possible changes in such requirements, and Mr. Rouse stated that he felt the fact that people in the market were discussing the subject had its healthy aspects as indicating a realization of some of the implications of recent stock market activities.

Chairman Martin responded that he felt it very healthy for persons outside the Federal Reserve System to discuss all aspects of the matter, but that his point was that it was incumbent on representatives of the Federal Reserve System, since it was the System's responsibility, to keep their observations strictly within the family. Otherwise, comments would be misconstrued by the public, and at all times the System should do everything possible to avoid having members of the public indicate that they had obtained information through "leaks" from headquarters.

Mr. Earhart said that Mr. Sproul had very well expressed the views which he (Mr. Earhart) held. His observations, confined largely to the Twelfth District, found widespread optimism among businessmen and the public generally. Demonstration of that optimism, however, was largely confined to the stock market and apparently had not been translated into any undue accumulations of inventories or forward buying. Mr. Earhart noted that some firms such as glass concerns had found that demand was exceeding supplies and that additional orders could not be filled as quickly as desired, with the result that some had gone abroad to obtain supplies. For the most part, however, optimism as to business had been on the conservative side. Even among builders, some caution was evident, and Mr. Earhart cited deferment of plans for shopping centers which might ultimately be built but which were not being put forward at this time because some of those already constructed had not proved as profitable as had been anticipated. Mr. Earhart stated that there was evidence that new houses were being sold as completed. Vacancies were developing somewhat rapidly in older commercial buildings.

Mr. Erickson said that he had been unable to find any evidences of undue inventory accumulation in New England. On the other hand, he could not find any great evidence of optimism. The textile industry was still not in good condition, and machine tool manufacturers were just getting along. Shoe manufacturers anticipated good business next spring and construction was continuing active. But for the area as a whole, Mr. Erickson said, he could not find indications of enthusiasm such as was indicated by the economic review presented this morning. With respect to credit policy, Mr. Erickson said that he did not disagree with Mr. Sproul and that he felt any transition from existing policy should be very gradual.

Mr. Johns said that the views already expressed were quite applicable to the Eighth District. Laying aside some aspects of stock market activity, he found no evidences of speculative fever in business attitudes or decisions of businessmen in the Eighth District. Some felt the stock market had gotten too high, and there was a little evidence of speculation in real estate lying in the path of residential subdivisions. Speculation was not of major importance, however, and generally the attitude seemed to be that business for 1955 would be somewhat better than during the current year but not as good as in 1953. As to credit policy, Mr. Johns concurred generally in the views already expressed, stating that it was too soon seriously to consider dropping from the full Committee's directive any reference to "ease" but that he would seriously consider eliminating the word "active" from the directive. Mr. Johns also felt it was too soon to begin talking again about an inflationary threat.

Mr. Leedy associated himself completely with the views Mr. Sproul had expressed in appraising the economic situation. He was unable to find any real evidence of speculation going on in the Tenth District; there was some optimism but probably less than in other parts of the United States because of the importance of agriculture in the Tenth District and the continued unfavorable effects of the drought. With respect to credit policy, Mr. Leedy felt that the views already expressed covered the subject. The Committee had gone as far as it should with the policy of "active ease" but to "slam on the brakes" suddenly would be a mistake, and any reduction in the amount of ease should be gradual.

Mr. Irons said that his views, based on conditions in the Eleventh District, would vary only in degree from those already expressed. He had been unable to find any tangible evidence of speculation in that district; people were generally optimistic but with a degree of caution, particularly with respect to inventory accumulation. In making the survey which had been suggested by the executive committee at its meeting on November 9, businessmen reported that inventories currently were about in balance with sales and that if sales went up they hoped inventories would not be increased but that there would be a more rapid turnover of stocks. To say that the agricultural situation is either "good" or "bad" as a whole is not very meaningful because in some sections of the district it is bad and in others fairly good. It looks as though total farm receipts in the district for this year will be only a little below receipts of last year. Mr. Irons could see no evidence of speculation which would favor a reversal of current credit policy although a moderate transition from aggressive active ease would seem appropriate. Such a shift should avoid dramatics and should be made as gradual as possible.

Mr. Powell stated that his survey in the Ninth District brought out nothing to call for a different opinion than that already expressed. He had found nothing that looked like inventory speculation in his area, and goods seemed to be flowing to final consumers without backing up to any extent. Pointing out that the Ninth District was largely agricultural, Mr. Powell said there was remarkably little concern about the reduction in farm income, noting that that district had escaped the drought which had affected some other sections severely in 1954. As to credit policy, Mr. Powell thought no action should be taken which would make it appear the System was afraid of recovery: the economy must reach new high levels through growth if it is to keep resources employed, he said, and the System should follow policies which would help to that end without speculative excesses. At this stage the System should take no steps to indicate it was "running for cover" before it needed to. He could see no evidence in the Ninth District that a move to raise margin requirements was necessary, but if the Board of Governors felt the stock market was too active it had power to act in that field. This, however, need not affect open market operations and, in general, Mr. Powell favored little or no change in open market policy although it might be desirable to remove the word "active" from the directive in its reference to ease.

Mr. C. S. Young mentioned the resurgence of optimism among farmers in the Seventh District, stating that land prices which had been going down since 1952 were now rising and sales transactions were increasing. Optimism had become apparent among cattle feeders and other agricultural producers during the past ninety days, and businessmen generally felt very optimistic. However, there was no movement in the Seventh District so far as he had been able to discover showing increases in inventories; his reaction to the recent inquiry as to whether a feeling of speculative activity was developing was that the Board of Governors had the authority to increase margin requirements if that seemed necessary. Mr. Young would go along with the views expressed earlier regarding credit policy, emphasizing that the word "restraint" should be used very sparingly at this stage.

Mr. Leach noted that in 1953 the Committee's policy had been directed toward avoiding deflation and later toward actively bringing about recovery. This had been done and we were now just where we wanted to be. In surveying conditions in the Fifth District there was little indication of speculative activity, although there was optimism as to the outlook. The building industry was active but unsold houses were not accumulating and there was no reason to think that there was any undue speculation in inventories of materials or otherwise. Mr. Leach said that if the Committee was not now leaning against deflation, and if it felt that there was an upward movement which called for a change in credit policy, the minimum change he would make would be to leave the word "active" out of the directive in its reference to ease; he would consider eliminating the reference to "active ease" and simply have clause (b) in the directive refer to promoting "growth and stability". As to the discount rate, Mr. Leach would make no change at this time. and he was certain that nothing indicating restraint should be in the directive of the Open Market Committee or in the policies of the System at present.

Mr. Vardaman stated that he had recently talked with a number of top-level businessmen and that he found an attitude of hopefulness, rather than a spirit of real optimism. He agreed with Mr. Sproul's general presentation, but he felt it would be a mistake to do any "snubbing" at this stage. The System should stand ready to prevent any increase in speculative activities or in inventory speculation which, if permitted to develop, would necessitate a sudden movement by the System to restore balance; but he would dislike any change in the wording of the directive from the full Committee to the executive committee at this time, unless there was more evidence than had been presented of speculative activity in the economy. Mr. Vardaman felt strongly that there should be no restraint and it was his view that the existing directive provided all the flexibility needed to maintain proper conditions of ease.

Mr. Mills said that he interpreted the comments made this morning to mean that the System must make a continuous study of how much slack could be taken out of the market without hindering the legitimate loan and investment functions of the commercial banks. He shared this feeling. He was very conscious that there was a time lag between System action and public reaction, but he felt that an abrupt movement in System operations might cause needless concern about System policy and intentions, and that this should be avoided. If the System found that there was a build-up in inventories on the shelves of securities dealers or if there was a tendency for deferment of new security offerings, that could very well be an indication of an undesirable tightening in the market and an indication that the System was cramping the very sources of expansion that it would like to foster on a reasonable basis. Relative tightness in the market has been a normal phenomenon during much of December because of seasonal factors, but with the turn of the year it was possible that a very sensitive condition might develop. There would be need to replenish some of the inventories withdrawn during the Christmas season and some of this would be desirable. If it became necessary to retard that stocking at a later period the System could take action to do so. If a restrictive policy were to be taken during the first few weeks of 1955, there was real danger that the System might be cramping back the planning and the expansion implicit in that planning at the very time when business programs for the remainder of 1955 were being determined.

Mr. Mills felt that a restrictive policy at that time along with seasonal contraction in deposits just after the liquidity position of the banks had been reduced would be undesirable. One possibility of being too severe would be to cause undue alarm on the part of the business community and to leave the banks in a position where they could not function normally which, in turn, would aggravate the alarm of the business community. Mr. Mills felt that the problems over the next six to eight weeks should be resolved on the side of not taking out too much slack from the market, which would mean that there should be no fixed volume of member bank free reserves or member bank borrowings.

Mr. Robertson felt that differences in the views already expressed were mostly a matter of degree. He commented that he had heard more pessimism among the comments given this morning than he had heard anywhere else recently. Mr. Robertson felt the Committee should be in a position to move in either direction, depending upon how the situation developed. It should be in a position to discourage expansion if that seemed necessary, and it should be in a position to make certain that there was no shortage of credit for legitimate business expansion. In studying the directive of the full Committee, he said, he had come to the conclusion that perhaps the best solution was to delete from the phrase of the directive which provided that operations should be with a view "to promoting growth and stability in the economy by actively maintaining a condition of ease in the money market" all of the words following "economy".

He felt this would leave the executive committee in a position to lean either way, depending on developments, which was desirable in view of the fact that no one could tell at this stage just which way the economy would go. In operations, he felt, it would be desirable to strive toward a much lower volume of free reserves than had existed recently and to place greater reliance on use of the discount window. However, he said that it would be undesirable to lay down specific plans at this stage for a period of as long as three months since this was a period in which it was necessary to have flexible responsibility placed in the executive committee with authority for it to meet conditions as they arose.

Mr. Balderston felt that the existing policy of the Committee should be continued with an attempt to take up the slack in the money market. He was concerned, however, that any change in the wording of the directive to the executive committee might be misinterpreted by the public, and this was the reason why he would make no change in the wording of the directive at the present time. He would be willing to instruct the executive committee to take whatever action was required with the understanding that whatever was done would be almost imperceptibly gradual. It was better for any shift to become evident as a result of action rather than words.

Mr. Fulton agreed strongly with Mr. Balderston. Optimism in the Fourth District resulted when the steel rate moved up from 60 to 80, he noted, but there was no evidence of speculation in inventories or in any other phase of activity. Residential building was high but there was no evidence of "stickiness" in sales of new houses; many persons were looking at new automobiles but sales were not too good, partly because of old balances on instalment contracts. Bankers considered it much too early to begin putting on the brakes, and were not concerned about speculation even in the stock market. Mr. Fulton said that, in his opinion, the present wording of the directive of the Committee would not seem to preclude any proper action that would need to be taken if speculation began to be apparent.

Mr. Williams said there was general optimism in the Philadelphia area--he described it as "group" optimism--and it was greater than appeared to be warranted by specific items of economic information. Mr. Williams thought the Committee should not speculate about the future and it should increase its efforts to obtain evidence as to just what trends were in the economy. Mr. Williams would eliminate the word "active" from the full Committee's directive and would rely on a direction to maintain "ease". He would be entirely ready to explain such a change, notwithstanding the reasons suggested by Mr. Balderston as to why any change in wording might be misinterpreted.

Mr. Bryan said that the differences of opinion indicated by the discussion seemed to him more largely differences of emphasis than of substance. His own emphasis would be in line with his understanding of points made by Messrs. Vardaman and Mills. He felt that reliable evidences of recovery are of very recent date and the extent of economic recovery thus far is well within the limitations imposed by the materiel and manpower of the economy.

Mr. Bryan said he thought our use of the word "active" may have over-emphasized in our own minds the degree to which Reserve System actions had contributed to monetary ease. He felt that the appearance of monetary ease may in considerable part have resulted from the liquidation of inventories and the fact that the economy has been operating at less than full capacity. After noting that he had heretofore questioned the usefulness of "free reserves" as a tool for regulating the money supply, Mr. Bryan said that in his opinion the additions to total reserves in the past few years had not been excessive when considered in relation to the growth of reserves needed in the light of historical experience and the growth of the country's manpower and general economic potential. He concluded that little or no change of policy was thus needed at this time and said that if a broad, strong economic recovery is now in process he assumed credit would tighten automatically, even though the System continued providing net additions to total reserves at about the same rate as in the past 24 months. Mr. Bryan said that he could not now see much speculation in the economy. He questioned whether there should be any change in the wording of the directive and felt certain that there should be little or no change in the monetary policies of the Committee.

Mr. Bryan went on to say that while he may have misunderstood Mr. Sproul's suggestion about giving the Manager of the System Open Market Account authority to operate more on the basis of the "feel" of the market, he would like to express the judgment that a directive to feel the market is not the sort of directive that a principal can appropriately give to his agent or that an agent can wisely accept from his principal.

Chairman Martin stated that the question of action to be taken was a matter of degree and of emphasis. He referred to the difficulties experienced in using projections of business and of quantities of reserves; yet, the Committee could not get away from at least an implied projection of the business situation in considering changes in credit policy. The Committee had to make some estimate of the future in reaching its decisions. It could not assume that all the evidence would be in if it would wait a few weeks. Chairman Martin felt that the Committee had done well in its operations recently and that the economy was more robust than Mr. Bryan had suggested. He had more confidence in the growth of the economy than some had indicated at this meeting, but this did not mean that he was taking an optimistic position to the extent of "going out on a limb" as to the immediate future.

Chairman Martin strongly disagreed with Mr. Balderston on the question of a change in the wording of the directive, stating that to make no change would leave the System in the position of maintaining a policy of "active ease". In Chairman Martin's judgment, the outside situation just did not warrant continuing the same program that had been followed in past months, if the System was talking about a flexible policy. Essentially, Chairman Martin said, the Committee wished to promote growth and stability in the economy. There was no formula as to what the rate of growth should be and it was something that obviously was going to vary with the conditions from time to time. The System had an obligation not to perpetuate waste and inefficiency in the economy, Chairman Martin said, and he did not believe that inflation provided jobs for people on a sustained basis although it might temporarily promote jobs. He felt the Committee should be very careful about leaning too far on the side of easy money, and he expressed the view that on the basis of the comments made at this meeting, it appeared to be the majority view that some change in the directive to the executive committee would be desirable at this time.

There followed a general discussion of possible changes in the wording of the directive to be given the executive committee.

> During the discussion, Mr. Sproul moved that clause (b) of the existing directive to the executive committee with respect to arranging for open market transactions be amended to delete the word "actively" so that it would read that such transactions were to be with a view "(b) to promoting growth and stability in the economy by maintaining a condition of ease in the money market".

During discussion of this motion, reference was made to the suggestions contained in Mr. Sproul's statement earlier in this meeting, namely, that there be taken out of the present directive the command to be aggressive in maintaining a condition of ease and, instead, to aim at taking some slack out of the market, but not at restraint. Some of the members of the Committee indicated that they felt a program of this sort could be carried on without change in the wording of the present directive. Others felt that the directive preferably should be changed to eliminate all reference to maintaining ease in the market, and to provide in clause (b) only that transactions be with a view "to promoting growth and stability in the economy." In connection with both these points of view, it appeared to be the consensus that some shift from the existing policy of "active ease" was desirable but that any change between now and the next meeting of the full Committee would be gradual and would not amount to restraint.

Mr. Sproul recalled that in past years the Committee's general directives had been sufficiently general in nature to cover whatever program was contemplated at the time of the meeting, with the result that the wording of the directive had shown little or no change over considerable periods of time even though there were major changes in policy. Subsequent to 1951, he noted, the Committee had decided that it was preferable to spell out a little more definitely the policy to be followed between meetings and, since it now seemed to be the consensus that the Committee contemplated a change in policy, even though it was to be ever so mild and ever so gradual, he felt it desirable that a change be reflected in the wording of the directive.

Mr. Leedy said that he would be somewhat disturbed by a change in the directive which eliminated all reference to ease, and which would provide only that operations were to promote growth and stability in the economy. To make the directive so general in nature would be to return to the type of directive that Mr. Sproul had mentioned had been used a few years ago; such a directive would provide no definite guide to the executive committee but would be so broad in its terms that it would never need to be changed no matter how policy might change. Mr. Leedy questioned the desirability of resuming the use of directives so general in nature. On the other hand, he felt that since some change in policy was contemplated, a change should be evident in the wording of the directive and he, therefore, would be inclined to favor Mr. Sproul's motion.

Chairman Martin stated that he was impressed with the points made by Mr. Leedy and that, while he felt the general purpose of the Committee was to promote growth and stability in the economy, it probably would be undesirable to change clause (b) of the directive so that it provided only for this objective.

> Following further discussion in the light of the alternative suggestions referred to and of Mr. Leedy's comments, Mr. Sproul's motion that clause (b) of the directive be changed to delete the word "actively" so that the clause would read "to promoting growth and stability in the economy by maintaining a condition of ease in the money market" was approved by unanimous vote. In taking this action, it was understood that the Committee contemplated a gradual reduction in the amount of ease in the market without approaching a policy of restraint.

In a reference to his suggestion that the executive committee might instruct the Manager of the System Open Market Account to operate on the "feel" of the market, Mr. Sproul stated that Mr. Bryan must have misunderstood the suggestion when it was first made. His thought, Mr. Sproul said, was that the Manager might be instructed by the executive committee to take into account the "feel" of the market as well as the volume of free reserves, money rates, and other factors. In other words, "feel" was to be only one of the factors to be considered in determining open market operations within whatever limits were prescribed by the full Committee and the executive committee.

In response to a question from Chairman Martin, Mr. Rouse stated that he had no suggestion for change in the limitations in the directive to be given by the full Committee to the executive committee.

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 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.

Chairman Martin suggested that Mr. Robertson comment on the subject of repurchase agreements, concerning which he had raised questions in his memorandum of October 20, 1954, and with respect to which the New York Reserve Bank had furnished a memorandum dated November 9, 1954.

Mr. Robertson stated that he had prepared an additional memorandum with respect to this matter since reading the memorandum prepared at the Federal Reserve Bank of New York under date of November 9, 1954, and that he would suggest that copies of his additional memorandum be distributed with the thought of postponing discussion of the matter until the next meeting of the full Committee. Mr. Robertson stated that in the meantime he would have no objection to continuing the existing procedures with respect to repurchase agreements.

There was agreement with this suggestion.

Mr. Szymczak stated that he had received copies of a report by the Special Committee on Foreign Operations of American Banks on Bankers Acceptances, prepared pursuant to the suggestion made at the meeting of the full Committee on September 22, 1954. Since the report had come to him only yesterday afternoon and members of the Committee had not had an opportunity to study it, it was suggested and agreed that the full Committee ask the executive committee to study the report and give some indication at the next meeting of the executive committee as to its views concerning the report. If necessary, a meeting of the full Committee could be called to consider changes in the procedure with respect to bankers' acceptances.

There was agreement with this suggestion.

Mr. Rouse then stated that at the present time no authority existed for executing repurchase agreements covering bankers' acceptances, and he raised the question whether it would be desirable to extend the existing authority covering repurchase agreements for Treasury securities so as to include bankers' acceptances.

Mr. Robertson stated that he would be averse to extending the authority as suggested by Mr. Rouse, that in his view the whole question of bankers' acceptances should be considered before making a change of the type proposed, and that he would, therefore, suggest that the proposal be carried over until the next meeting of the executive committee.

There was agreement with this suggestion.

In an additional comment on this subject, Chairman Martin stated that he felt the year 1955 might be much more important as a year in terms of what was done in the foreign trade field than seemed probable in terms of domestic trade. He felt, therefore, that the proposals regarding bankers' acceptances merited consideration.

It was agreed that the next meeting of the full Committee would be held during the week beginning February 28, 1955.

Mr. Sproul stated that as indicated in his letter to the members of the Committee dated November 24, 1954, he would carry over until the meeting in March discussion of the actions taken by the Committee in December 1953 and in March 1954, to which he had referred at the close of the full Committee meeting on September 22, 1954, to the effect that transactions of the System open market account will be entered into solely for the purpose of providing or absorbing reserves (except for disorderly markets).

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary