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 27, 1954, at 10:45 a.m.

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

Messrs. Evans and Mills, 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. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York

Mr. Sproul noted that Messrs. Rouse and Gaines had been delayed in arriving from New York by plane and he suggested that discussion of the report of operations in the System account during the past two weeks be deferred until they joined the meeting.

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 April 13, 1954 were approved.

At Mr. Sproul's request, Mr. Young made a statement with respect to recent economic conditions concerning which a staff memorandum dated

April 23, 1954 had been distributed before this meeting. Mr. Young stated that indications of increased resistance to further contraction in economic activity had become more numerous in recent weeks and that in some areas signs of positive improvement had developed. On balance, however, activity, employment, and private demand for bank credit appeared still to be drifting downward although at a much slackened rate. Prices of materials, on the other hand, have tended slightly upward and Mr. Young noted particularly the recent sharp rise in prices of sensitive commodities which reflected increases in both foodstuffs and other materials. In response to a question from Mr. Sproul, Mr. Young commented on the estimate of 3,700,000 unemployed persons at present, expressing the view that this total did not appear abnormally large in relation to the total labor force, considering the adjustments that have been taking place from an overtime economy basis. If unemployment got no worse than at present, Mr. Young felt that it could be considered a relatively moderate adjustment in that respect. He noted, however, that the peak in unemployment could be expected to occur several months after a recovery movement in economic activity had begun. Mr. Young also commented in response to Mr. Sproul's question on the significance of recent increases in commodity prices, stating that there was some evidence of renewed stockpiling and also there was doubtless some speculative buying prompted by possibilities of extended conflict in Indo-China. Mr. Young further stated that there was an indication both on the basis of domestic and foreign data that inventories of industrial materials were getting down to a level consistent with current operating needs.

Messrs. Rouse and Gaines joined the meeting during the course of Mr. Young's remarks.

Mr. Thomas then made a statement on the credit situation in which he said that it looked as though the Treasury cash deficit during the current fiscal year would be between $1 and $1.5 billion, or a little less than had been estimated. With Treasury cash borrowings of $2 billion during May and with heavy income tax collections during the second half of June, it appeared as though the Treasury would have an adequate cash balance of around $5 billion excluding gold at the end of this fiscal year. Loans and investments of reporting member banks showed less decline in March and the first three weeks of April than in the same period last year. Although commercial loans declined more rapidly this year than in 1953, banks endeavored to keep more fully invested this year than last and holdings of securities were reduced less than was the case a year ago. Private demand deposits at city banks declined somewhat more in recent weeks than in the same period last year, while Government deposits showed a smaller decline than a year ago. Reserve positions of banks continued generally quite easy with excess reserves averaging close to $700 million and free reserves around $600 million. Mr. Thomas noted that Government bond yields had reached new low levels for recent years early in April and had leveled off since then. The yield on Treasury bills sold this week was .886, the lowest since 1947. Mr. Thomas also commented on the market for State and local government securities, noting that yields on such securities generally had tended to rise reflecting the very large volume of issues in that market.

Looking ahead, it was Mr. Thomas' view that free reserves could be expected to continue during the next few weeks at $600 million or more on a weekly average basis, even allowing for flotation of two or three billion dollars of Treasury securities, some of which would be bought by banks. Under the circumstances, further additions to reserves would tend either to lower short-term rates even further or to lead to the holding of substantial excess reserves.

In response to a question by Mr. Robertson, Mr. Thomas stated that excess reserves were quite well spread throughout the banking system and that during the past week there had been a moderate volume of free reserves at New York City banks in contrast with the relatively small volume of free reserves at those banks earlier this year.

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 April 13 to April 22, 1954, inclusive, and at this meeting there was distributed a supplemental report covering the period April 23-April 26, 1954, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse commented on the market for State and local governmental securities, indicating that direct obligations of States were moving readily while revenue bonds were continuing to move more slowly. Dealers were having no problem in borrowing, but they were generally not of a disposition to increase their inventories of revenue bonds to any extent. "Municipal" issuers were having no difficulty in attracting bids. In the market for corporate issues, Mr. Rouse noted that at present a minimum rate of about 3 per cent seems to be required on Aa offerings and of 3.15 per cent on A offerings to insure successful reception. Dealers report that there are no big corporate offerings in sight beyond the present calendar.

Mr. Mills joined the meeting during Mr. Rouse's comments.

Upon motion duly made and seconded, and by unanimous vote, transactions in the System account during the period April 13-April 26, 1954, inclusive, were approved, ratified, and confirmed.

Turning to a consideration of open market operations, Mr. Sproul stated that there had been no open market operations since the last meeting aside from a small run-off of the remaining amount of repurchase agreements, and that excess reserves and free reserves had been somewhat higher than in the period immediately preceding the last meeting. Mr. Sproul recalled that at the last meeting there was agreement that the committee should not let free reserves fall below the general minimum goal of $300 million, while there could be greater leniency in connection with any tendency of free reserves to rise above the upper limits of the goal of around $500 million then discussed. He stated that operations had been carried on in accordance with this understanding although it might have been desirable to have acted to hold down the level of free reserves. This was not done because it might have confused the market in view of the concurrent reduction in discount rates. Mr. Sproul went on to say that he gathered that the estimates made by the Board's staff of the probable level of free reserves during the next few weeks were in general agreement with those prepared at the Federal Reserve Bank of New York and that it appeared that if the System account did nothing during the next two weeks, the reserve position of banks probably would stay about as it is. That presented a question, he said, whether there was too much or too little or about the right amount of free reserves.

Mr. Rouse stated that longer maturity Treasury bills were being traded last night at a discount basis of 0.80-0.83 per cent indicating a continued active demand for such securities, and he noted that the Treasury recently had eliminated some of the supply of short-term securities from the market. Maintenance of the easy reserve position and the reduction in supply of short-term securities, if continued, might be expected to have some noticeable further effect on open market interest rates.

Mr. Szymczak felt there was not much that the committee should do prior to the next meeting either to increase or to hold down the level of free reserves. His disposition would be to allow market forces to operate unless something quite unexpected developed to show that the level of free reserves was markedly different from the estimated pattern as discussed earlier by Mr. Thomas.

Mr. Williams stated that he would go along with the position indicated by Mr. Szymczak.

Mr. Sproul said that it was difficult to isolate the various elements in the situation. There had been an increase in the availability of free reserves and there had been a reduction in discount rates which had had some slight influence on interest rates, and which, by reaffirming the committee's policy, had indicated a continuance of easy money conditions.

In addition, there had been persistent rumors that reserve requirements of member banks were going to be reduced shortly. As a result, the market was not acting wholly on the basis of supply and demand factors; it was also acting on hopes and expectations of what might be done in connection with reserve requirements.

Mr. Robertson stated that his view differed somewhat from the views previously expressed, that he felt free reserves currently were higher than was desirable, that while he would not have done anything to change operations during the past two weeks, in view of the reduction in discount rates by some of the Federal Reserve Banks, looking ahead he would much prefer to see the System account absorb some reserves rather than to permit a substantial further increase in the level of free reserves.

Mr. Vardaman stated that, speaking as an alternate for Chairman Martin, he would like to be recorded as disagreeing with the views expressed by Mr. Robertson. Mr. Vardaman said that he did not consider that free reserves were too high at the present time, that he felt it would be most unfortunate if free reserves were allowed to get any lower than they now are, and that he would not be concerned if they were allowed to get somewhat higher. Generally speaking, Mr. Vardaman felt that recent operations of the open market account had been satisfactory and that in view of the estimates of prospective free reserves presented at this meeting, he felt the present program should be continued. There was a serious doubt in his mind, however, as to whether open market operations could supply reserves in the proper form and with the proper distribution needed for the banking system as a whole. This, he recognized, was a question not before the committee at the present time.

Mr. Robertson stated that whereas it appeared Mr. Vardaman would lean toward having a larger amount of free reserves, he (Mr. Robertson) would lean toward not letting the volume of free reserves get much higher than it is.

Mr. Sproul said that he would have the same attitude as that indicated by Mr. Robertson. The committee has had as its objective the keeping of an adequate amount of reserves in the market, in view of the existing business and credit situation, and it should continue to have that objective. Mr. Sproul did not think it would be desirable to add to free reserves without regard to the effect on interest rates unless there was an indication that more reserves would bring about a desire to increase lending by banks. He felt that a time was approaching when the committee could affect prices but not volume of lending, just as in any other supply-demand situation. It is difficult to tell just where the economy is at present or where it is going, but it is clear that there is not a disorderly decline in economic activity and the Federal Open Market Committee has created credit conditions appropriate to the existing situation. Mr. Sproul could see no tight spots in the credit situation which called for further "grease" in the form of increasing the amount of free reserves at the present time. He suggested that in order to keep our perspective, it be remembered that after several years of overtime activity, the economy is now adjusting to more sustainable levels. Under these conditions, it seemed to Mr. Sproul that the more the economy itself could do to bring about the desired sustainable level in activity and the fewer the stimulants that were administered, which might wear off, the better the situation would be. In terms of the next two weeks, Mr. Sproul said, if the estimates of prospective reserves were reasonably accurate, it would not be necessary for the committee to choose between having extremely high or low free reserves; there might be some decline in free reserves next week and some increase in the following week, and the total would probably not change greatly.

Mr. Evans inquired whether Mr. Sproul had in mind when the time would be suitable for the committee to reduce holdings of the System open market account, if it wished to do so, making such sales as an offset to a reduction in reserve requirements.

Mr. Sproul responded that, in his judgment, this would have to come at a time when the System was making additional reserves available for which the banks would not have other immediate or prospective use. Mr. Sproul added that he was not much concerned whether the System open market account was in the neighborhood of $22 billion or say $18 billion; the political or public reaction to holdings of this magnitude would be the same. It was his view that in the next few years unless the System brought about a massive reduction in reserve requirements of member banks, it would continue to hold something like the existing volume of securities in the account and probably more as the System meets the needs of a growing economy.

Mr. Mills stated that in view of the prospective availability of reserves over the next two weeks, he felt the System could stay on the side lines and neither absorb nor provide free reserves.

Mr. Sproul inquired whether there was any disagreement with a program based on the view that, unless unforeseen conditions developed, the System account would allow the forces of the market to maintain about the existing level of reserves and that it would do nothing either to increase or decrease the level of free reserves. There being no disagreement with this suggestion, it was understood that this would be the program of the committee for the next two weeks.

Mr. Sproul then called upon Mr. Thomas who reported on discussions which the Treasury had had on Thursday and Friday of last week with the American Bankers Association Committee on Government Borrowing and on Monday of this week with the Governmental Securities Committee of the Investment Bankers Association.

In response to a question from Mr. Sproul, Mr. Rouse stated that he had no suggestions for change in the directive to be issued by the committee to the Federal Reserve Bank of New York.

> 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 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 $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.

It was agreed that the next meeting of the committee would be held at 10:45 a.m. on Tuesday, May 11, 1954.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary