

FORTY-FIRST

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1954

**RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE**

MARCH 3, 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 actively 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.

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 billion dollars.

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

This directive was in the same form and had the same limitations as the directive adopted by the Federal Open Market Committee at its meeting in December 1953. The December action was for the purpose of providing, as the central objective of current credit policy, that transactions for the System open market account should be with a view "to promoting growth and stability in the economy by actively maintaining a condition of ease in the money market." The objective of this directive was to combat the moderate but unmistakable decline in economic conditions that had become apparent after mid-1953 and which was continuing as the year came to a close.

The Committee's review of the economic situation in March 1954 showed that the recessionary tendencies which had appeared during the second half of 1953 were continuing. Industrial production had decreased by about 8 per cent from the high levels of April-August 1953, and other important measures of activity had shown similar declines, although commodity prices had been relatively stable. It was not evident whether there soon would be either an upturn in activity or a leveling out of the decline.

Pursuit by the Federal Reserve in late 1953 and in the first two months of 1954 of the credit policy described as "active ease" was for the purpose of assuring that recession tendencies would not be accentuated, as at times in the past, by pressure for liquidation of bank credit, and that tendencies toward economic recovery would be encouraged by an ample volume of reserves at the banks and aggressive efforts to extend the availability of credit. The easing tendencies, both in the market and in System policy, were confirmed and reinforced in February by reductions in discount rates at the Federal Reserve Banks. In order to continue this atmosphere and to foster recovery, the Committee concluded that the policy of actively providing reserves to the money market to facilitate credit expansion should be continued during the spring of 1954.

2. Review of Continuing Authorities or Statements of Policy.

The Committee reviewed and reaffirmed without change all continuing statements of operating policy and specific authorities for operations which were in effect immediately prior to this meeting on March 3, 1954, at which the newly elected members of the Federal Open Market Committee assumed their duties.

In this connection, Mr. Sproul referred to the action taken by the Committee at its meeting in December 1953 in approving a statement of policy that, until superseded or modified by further action of the Committee, "transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio." Mr. Sproul moved that the first clause of this statement of policy

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,