

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 Wednesday, September 22, 1954, at 1:12 p.m.

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

Mr. Riefler, Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. R. A. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. D. C. Miller, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York

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 September 8, 1954, were approved.

Upon motion duly made and seconded, and by unanimous vote, transactions in the System account during the period September 8 to 21, 1954, inclusive, were approved, ratified, and confirmed.

Reference was made to the general policy approved at the meeting of the full Committee earlier today at which it was agreed there should be a continuation of the credit policy of active ease with the understanding

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that, in the immediate future, any doubts should be resolved in favor of too much rather than too little ease in the market, and with the further understanding that, without guaranteeing any particular price level in the Government securities market, adequate reserves should be available to assure that the current offering of Treasury securities would be successful. In a brief discussion of the course to be pursued by the executive committee between now and its next meeting, it was agreed unanimously that operations for the System account, in order to provide the appropriate degree of ease to carry out the general policy adopted by the full Committee, should be directed toward maintaining a level of free reserves within the approximate range of \$400-700 million.

Chairman Martin referred to Mr. Sproul's statement at the meeting of the full Committee immediately preceding this meeting that he would propose at today's meeting of the executive committee that the Federal Reserve Banks be authorized temporarily to enter into repurchase agreements under the terms of the authorization given by the executive committee on June 24, 1954, at a range of rates from 1-1/4 per cent to 1-1/2 per cent.

Mr. Robertson stated that he was strongly opposed to granting the authorization proposed by Mr. Sproul. He felt that the repurchase arrangement constituted a loan, that it was not consistent with the purposes of the statute, and that it benefited nonbank dealers in Government securities in a manner which did not apply to dealers who were banks or to member banks in general. Mr. Robertson felt that dealers in Government

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securities should not be given an advantage which was not given to member banks.

Mr. Szymczak said that he disagreed wholeheartedly with the views expressed by Mr. Robertson. The repurchase arrangement, he said, was not an instrument designed to benefit dealers as such. Rather, it was an instrument to be used in adjusting monetary policy to the needs of the market, and it was the most effective instrument which the System could use for meeting certain market situations which would exist for short periods of time. In Mr. Szymczak's view, the provision of funds to the market through the repurchase arrangement at a rate below the discount rate was no more inequitable to member banks than was the provision of funds to the market through outright purchases of Government securities for the System account at a rate below the discount rate.

Mr. Robertson stated that notwithstanding the use of the repurchase arrangement for many years, he felt that originally it was an illegal arrangement. The fact that it had been an administrative practice for many years gave some legal support to its present use, however, and he did not wish to have a decision on its future use based on the question of legality. He did wish, nevertheless, to raise the question of its use on the basis of equity, to which he had already referred, and need. It was his view that there was no necessity for the repurchase arrangement, and that any needs of the market which have been met by this means could be met by outright purchases and sales of securities for the System account, or at most by making advances to Government securities dealers

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under repurchase agreements at rates no less than the rates charged member banks on discounts.

Mr. Williams said that he would like to hear from counsel on the question of legality, and Chairman Martin asked that Mr. Vest comment on the subject at this time. The Chairman also suggested that the entire question be considered thoroughly at an early meeting.

Mr. Vest said that the question of the use of repurchase agreements was given extensive consideration many years ago and that in 1925 the Board took specific and definite action authorizing and approving the practice of repurchase agreements. Since that time the practice had been engaged in from time to time in accord with that interpretation of the law by the Board. As to the rate, Mr. Vest said that if repurchase agreements were made at a rate which resulted in repurchase transactions becoming the normal means by which member banks obtained funds from the Federal Reserve Banks rather than through discount transactions, a situation might be brought about under which the Open Market Committee, as distinguished from the Reserve Banks and the Board of Governors, would establish the rate that applied to the bulk of transactions. Such a situation while not illegal would not be in accord with the general scheme contemplated under the Federal Reserve Act.

Chairman Martin again expressed the view that the questions raised by Mr. Robertson should be fully explored.

Mr. Williams suggested that, under the circumstances, the use of the repurchase facility be continued pending a further discussion of the matter at the next meeting of the executive committee.

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In the course of the discussion it was agreed that the next meeting of the executive committee would be held on Tuesday, October 5, 1954, at 10:45 a.m.

Thereupon, the executive committee voted to authorize the Federal Reserve Banks to enter into repurchase contracts at a range of rates of 1-1/4 per cent to 1-1/2 per cent, effective immediately and continuing until the close of the day on which the next meeting of the executive committee is held (tentatively set for October 5, 1954), such agreements to be subject to the other terms and conditions of the arrangement authorized effective June 24, 1954.

On this action Messrs. Martin, Sproul, Szymczak, and Williams voted "yes" and Mr. Robertson voted "no".

In response to Chairman Martin's inquiry, Mr. Rouse stated that he had no suggestions for change in the directive to be issued by the executive 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

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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 \$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 \$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.

Thereupon the meeting adjourned.


Secretary