

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 Wednesday, March 2, 1955, at 9:40 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Balderston
Mr. Earhart
Mr. Fulton
Mr. Irons
Mr. Leach
Mr. Mills
Mr. Robertson
Mr. Szymczak
Mr. Vardaman

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Daane, Hostetler, Rice, Roelse,
Wheeler, 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. Koch, Assistant Director, Division of
Research and Statistics, Board of Gov-
ernors
Mr. Miller, Chief, Government Finance Section,
Division of Research and Statistics, Board
of Governors
Mr. Gaines, Securities Department, Federal Re-
serve Bank of New York

Messrs. Erickson, Johns, C. S. Young, and Powell,
Alternate Members of the Federal Open Market
Committee

Messrs. Bryan, Leedy, and Williams, Presidents of
the Federal Reserve Banks of Atlanta, Kansas
City, and Philadelphia, respectively.

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Mr. Riefler reported that advices of the election by the Federal Reserve Banks for a period of one year commencing March 1, 1955 of members and alternate members of the Federal Open Market Committee had been received, that each newly elected member and alternate member had executed the required oath of office, and that it was the opinion of the Committee Counsel, on the basis of the advices received, that the following members and alternate members were legally qualified to serve:

Allan Sproul, President of the Federal Reserve Bank of New York, with William F. Treiber, First Vice President of the Federal Reserve Bank of New York, as alternate member;

Hugh Leach, President of the Federal Reserve Bank of Richmond, with J. A. Erickson, President of the Federal Reserve Bank of Boston, as alternate member;

W. D. Fulton, President of the Federal Reserve Bank of Cleveland, with C. S. Young, President of the Federal Reserve Bank of Chicago, as alternate member;

Watrous H. Irons, President of the Federal Reserve Bank of Dallas, with Delos C. Johns, President of the Federal Reserve Bank of St. Louis, as alternate member;

C. E. Earhart, President of the Federal Reserve Bank of San Francisco, with Oliver S. Powell, President of the Federal Reserve Bank of Minneapolis, as alternate member.

Upon motion duly made and seconded, and by unanimous votes, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 29, 1956, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or with a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

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Wm. McC. Martin, Jr.	Chairman
Allan Sproul	Vice Chairman
Winfield W. Riefler	Secretary
Elliott Thurston	Assistant Secretary
George B. Vest	General Counsel
Frederic Solomon	Assistant General Counsel
Woodlief Thomas	Economist
J. Dewey Daane, L. Merle Hostetler, Morgan H. Rice, H. V. Roelse, O. P. Wheeler, and Ralph A. Young	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after February 29, 1956.

Mr. Sproul stated that the Board of Directors of the Federal Reserve Bank of New York had selected Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System account and his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairman of the Federal Open Market Committee (who under the provisions of the by-laws is also Chairman of the executive committee) as members and alternate members of the executive committee until the first meeting of the Federal Open Market Committee after February 29, 1956:

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Members

James K. Vardaman, Jr.
A. L. Mills, Jr.

Allan Sproul
Hugh Leach

Alternate Members

C. Canby Balderston
M. S. Szymczak
J. L. Robertson
Charles N. Shepardson*
(To serve in the order named
as alternates for Messrs.
Martin, Vardaman, and Mills)
W. D. Fulton
Watrous H. Irons
C. E. Earhart
(To serve in the order named
as alternates for Messrs.
Sproul and Leach)

* When he assumes his duties as a
member of the full Committee.

Mr. Sproul noted that for some time it had been the practice of members of the Federal Open Market Committee who were not members of the executive committee but who were living in Washington to attend meetings of the executive committee. He suggested that the practice be extended and that, as a means of bringing them in closer touch with this work, all members of the Federal Open Market Committee who were not members of the executive committee be invited to attend meetings of that committee whenever they could conveniently do so.

This suggestion was approved unanimously with the understanding that in the future the Secretary would notify all members of the Federal Open Market Committee of the times at which meetings of the executive committee were called to convene.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on January 11, 1955, were approved.

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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 December 28, 1954, and on January 11, January 25, and February 8, 1955, 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 January 11, 1955 to February 23, 1955, inclusive. There was distributed at this meeting a supplemental report covering commitments executed February 24 to March 1, 1955, inclusive, and copies of both reports have been placed in the files of the Federal Open Market Committee. Mr. Rouse stated that while he had nothing additional to report, he would like to emphasize that at the close of the period covered by the reports the banking system appeared to be "well within the scope of the control of the Federal Reserve System". That is, the banking system appeared to be conscious of its relative illiquidity after the Treasury's refundings of the past twelve months and to be in a position where slight changes in Federal Reserve policy could have a marked effect. It was Mr. Rouse's view that the market now was about at the point contemplated by the full Committee and the executive committee for this particular time.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period January 11 - March 1, 1955, inclusive, were approved, ratified, and confirmed.

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At Chairman Martin's request, members of the staffs of the Board's Division of Research and Statistics and Division of International Finance entered the room at this time for the purpose of presenting a statement regarding economic activity in the United States and abroad, illustrated by chart slides. A copy of the script of this review has been placed in the files of the Federal Open Market Committee, and following the meeting copies were sent to all members of the Committee. The review brought out the fact that economic recovery in the United States since last autumn had carried activity almost back to its previous peak and that gross national product during the current quarter was estimated at an annual rate of \$369 billion, compared with a high of \$370 billion in the spring of 1953 and with a level of \$356 billion during the first three quarters of last year. The review also stated that expansive forces had continued generally strong abroad, that the Board's index of industrial production in the United States was now estimated at 132 for February--9 points above its 1954 low and 5 points below its mid-1953 high. The rapid rise in economic activity had been reflected in financial markets, where money rates had risen sharply as credit demands had increased. The entire period of business contraction and recovery since mid-1953 has been characterized by widespread confidence. After reviewing the various aspects of economic activity in some detail, the review concluded with the statement that business recovery up to now in this country since the downturn in mid-1953 had been impressive, as had also been the expansive strength of activity abroad. It was stated that there is more basis for hope than

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ever before in the last quarter century that these trends signify a period of full-scale sustained prosperity for the free world. At the same time, there were some disquieting developments such as the rapid and to some degree speculative rise in stock market credit in the United States; the development of a financial climate giving rise to mergers, manipulation, and empire building; the unsustainable pace of current automobile output and sales; the very high rate of home building; and particularly the large volume of mortgages underwritten without a commercial quality test. The review also said that the sharpness of recent monetary actions by the Bank of England suggested concern about the health of Britain's balance of payments trends and stated that the result of these actions was likely to be a check on expansion of consumer credit and a slackening in the growth of investment expenditures.

The critical problem for credit and monetary policy in the United States, the review said, was how to thread its way along the narrow ledge that encourages sound economic growth and high employment and, at the same time, limits speculative developments and discourages financial overcommitments by businesses and consumers. Under credit and monetary measures recently adopted in this country, restraint on credit expansion had been tightened and money rates had risen sharply. The impact of these higher rates and of continuing credit restraints may not yet be fully reflected in capital and credit markets, and in this situation, further credit policy actions would need to be weighed carefully in the light of business and financial developments in this country as well as abroad.

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Chairman Martin stated that this meeting constituted the Committee's quarterly review of the business picture. He suggested that the next order of business be the consideration of open market operations, and he asked that the members of the Committee and the other Reserve Bank Presidents express themselves on any phase of System credit policy--reserve requirements, discount rate policy, margin requirements, or open market operations--in order that the Committee could consider all factors together.

Mr. Sproul then made a statement substantially as follows:

1. Economic recovery appears to be proceeding more gradually than in last months of 1954. Perhaps the most striking figures now showing up are the steel operating rate and automobile production and sales, but there may well be an element of borrowing from the future in these figures which helps to rob them of explosive possibilities. The continued boom in construction and the high level of consumer incomes and buying are the broader underpinnings of the general economic situation.
2. I still see nothing in that general situation which can or needs to be curtailed by a generally restrictive credit policy. Scattered increases in raw material prices haven't spread to the general price structure. Signs of speculative inventory accumulation have not yet appeared. There are still some pools of unemployment, which may persist for some time if the business upturn does not keep pace with a growing labor force. Bank credit figures seem to be consistent with moderate economic recovery, although not conforming entirely to admittedly sketchy seasonal projections. Effects of increases in consumer credit will be moderated by a heavy schedule of repayments on outstanding credit. Business sentiment, while bullish for the next few months, is uncertain about the later months of the year.
3. The mortgage credit situation obviously is a cause for some concern. Even though it is not possible to say that the recent rate of housing starts is not sustainable, it is possible to have doubts about the credit terms which have helped to sustain the boom. With respect to this situation, however, there are two points to be made from the side of general credit policy.

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(a) First, the present high level wave of residential building was started by last year's housing legislation, and sustained by easy money. Eventually the effect of the legislation will begin to taper off--terms can hardly be further liberalized--and we have already taken some of the ease out of the credit situation. Meanwhile it would be unwise to try to counteract what is a national housing policy, by further restricting credit for the whole economy.

(b) Second, it may be that this situation is beginning to correct itself, aided by what we have already done to take up the slack in the reserve position of the banks. The present ease in the mortgage market largely represents commitments entered into last year, for the first half of this year. There is some evidence that this was overdone--some unusual warehousing of mortgages with banks so as to be able to take up commitments. Now, however, there are reports that commitments on the easiest terms are harder to get, and this may be the beginning of an important change. In so far as capital demands outrun new savings in the next several months, mortgage lenders will have to liquidate present holdings to take on new commitments, or borrow from banks. If conditions in capital market are not too favorable to such liquidation, and if we keep some check on bank reserve positions, this shifting or this reliance on further bank credit will not be so easy, and results will begin to show later in year. If building operations should be turning down in any case, at that time, we might have a different situation on our hands.

4. We have already done quite a bit to take up the slack in the credit situation. Average weekly free reserves of member banks which were running around 400 to 500 million in December, ranged around 300 to 400 million in January and have fluctuated from 150 to 300 million in February. And it must be remembered that these free reserves are now largely in little pools in the country banks. Most of the time, the reserve and central reserve city banks--the most sensitive money lenders--have zero or even negative free reserve positions and there has been some intermittent increase in borrowing from the Reserve Banks.

There is also the fact that the banks have already liquidated a large amount of secondary reserves (mostly short-term Governments) to avoid borrowing from the Reserve Banks and to take on intermediate or longer term securities and mortgages. Because of decreased liquidity, they should now be more sensitive to pressure than they were.

Then, there is the matter of expectations. The general expectation in the market is that rates are bound to go up. If we do too much to confirm and inflame those expectations they may get out of hand.

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5. Finally, there are the Treasury's position and needs. It looks as if the Treasury would have to borrow from 3 to 4.5 billion cash during the rest of the fiscal year, of which 2 to 3 billion will be needed in early April (could take the form of a tax anticipation bill maturing in June) and 1 to 1.5 billion will probably be needed at mid-May when 1.5 billion of Series B Savings Notes mature. In addition because of the prospective temporary dip in Treasury balances during the first half of March and June, some borrowing from the Federal Reserve Banks (perhaps up to \$1 billion in June) on a special certificate may be necessary. We shall have to keep these needs in mind, as well as the temporary effects on the money market and on business conditions, of the March and April tax payments.

6. Putting all this together, we may be on the threshold of a restrictive credit policy--more restrictive than is required by the economic situation and more restrictive than we have intended. I think we shall have to be careful during the next several weeks to see that we do not pass over that threshold unintentionally. There could be a rapid run-up in short-term rates, a considerable rise in long-term capital yields (and decline in prices), and with Treasury borrowing entering the picture, a cumulative expectation of really tight money such as we had in early 1953. I should say we want to avoid such developments and it may require some open market purchases.

7. We have now gotten to the point, I believe, where the Treasury bill rate will hover slightly below the discount rate (or at times equal it) and member banks will be encouraged by the profit motive to shift to borrowing to meet reserve needs rather than going through the security market. I would let the situation simmer there for a while, employing repurchase agreements to meet temporary squeezes in the market, and buy securities if the squeeze seems to have become permanent or if there is need to put in some reserves to support bank underwriting of the Treasury's financing.

8. Such a program would not call for any change in our present directive.

Chairman Martin inquired of Mr. Sproul whether his closing remarks were intended to indicate that the discount rate would bear watching.

Mr. Sproul replied that, in broadest terms, a change in the discount rate must be considered in relation to the performance of the whole economy, in its domestic and international aspects. He referred to two

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recent examples--the United Kingdom where the rate was recently increased from 3 to 3-1/2 per cent and then to 4-1/2, and Canada where the rate has just been reduced from 2 to 1-1/2 per cent. In the United Kingdom, Mr. Sproul said, the economy appeared to be expanding at full stretch, with a tendency toward over-employment, and foreign exchanges showed a weakening of the international position. An increase in bank rate was the classical and proper response and when the first mild warning didn't do the trick a sharper warning followed. In Canada, the mild recession of 1954 has not been succeeded by a strong recovery, there is still concern about unemployment, and the Canadian dollar has been strong--perhaps too strong in terms of Canada's export trade. A reduction in bank rate seemed to fit the domestic and international position.

Mr. Sproul felt that it was more difficult to generalize with respect to our own country, perhaps because we know more about it, but that our situation was somewhere in between the two situations described. Our domestic economy, after a period of recession and then of stability in 1954, made a vigorous start on recovery in the last quarter of 1954. This upward movement appears to have gone forward but at a slower pace thus far in 1955. We are well advanced from the recession lows of 1954 but still in the phase of gradual recovery, Mr. Sproul said, and we are not yet in the full "prosperity" phase, particularly when prospective levels of employment and increases in the labor force are taken into account. In terms of economic conditions, an increase in the discount rate at this time would seem to be premature.

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Mr. Sproul also expressed the view that the adjustments the money market might be called upon to make during the March-April tax period and over the period of Treasury borrowing in April would be complicated by an increase in the discount rate. The reaction to such a move might result in a deterioration in market values--particularly long-term or capital values--that would be indicative of a more restrictive policy than the System yet wishes to follow. Mr. Sproul also referred to the matter of expectations, stating that the general expectation in the market is that rates are bound to go up. We are already getting a delayed rate action to the recent change in open market policy, he said, and if the discount rate were to be raised now, and thus further strengthen expectations of tighter credit and higher rates, there probably would be more of an immediate reaction than was desired. Regarding international money market relationships, Mr. Sproul said that the two increases in discount rate at the Bank of England in recent weeks have been partly to try to protect a weakening balance of payments position. So long as nothing in our domestic situation demands or requires an increase in discount rate, Mr. Sproul suggested that it might be helpful to the British position to have as wide a spread as possible in short rates between the two markets. He added the comment that some movement of short-funds to London (or the retention of funds there which might have come home) to take advantage of higher rates, may give temporary relief to the British position which would be in our long run interest.

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Mr. Sproul concluded his remarks by stating that he felt the Federal Reserve should watch the rate situation closely but that no change in discount rate should be made now.

Chairman Martin said that the reason he had raised the latter question with Mr. Sproul was that he thought the Committee might face a situation within the next couple of months which called for more reserves being put into the market, but that this might come when the System's delayed action on the discount rate might result in its being out of line with other market rates. Thus, the System might find itself in the position of wanting to act in two directions at once, namely, raising the discount rate and adding to reserves through open market operations.

Mr. Erickson said that he thought the report of the economists covered the situation very well although he could not find in the Boston District as much optimism as there was in some segments of the economy. Consumer buying in New England remained very strong with department store sales since Christmas continuing to exceed year ago levels as had new automobile registrations. The shoe industry continued very active, especially the market for women's shoes, and textile operations showed some improvement in activity but with a low level of profitability. Orders for machine tools increased during December and January and were now running ahead of shipments. Figures on construction, notably public works contracts, were well ahead of last year, and the latest figures of manufacturing employment showed some small increase in nondurable goods with a greater increase in durable manufactures.

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Mr. Erickson went on to say that as far as operations in the open market were concerned, he thought the Committee should continue what it had been doing, possibly reducing the amount of excess reserves very slightly. If too much tightening resulted, repurchase agreements could be used as a temporary measure. At the moment Mr. Erickson did not think that there should be any change in discount rates although the situation should be watched carefully between now and the next meeting of the full Committee. He felt similarly about any possible change in reserve requirements.

Mr. Powell stated that for the first time in many years we were finding the foreign situation correcting itself. The British upward movement in the discount rate had been a very wholesome thing, he felt, rather than for that country to have called for help from abroad by asking for lower rates in other countries. For the moment, Mr. Powell thought that the Committee could disregard the foreign situation and take care of domestic affairs without too much regard for the foreign impact of what it might do. In the United States, the economy seems to be running along very smoothly, he said, and he could see nothing to indicate a need for particular moves by the Federal Reserve System at this time. He was somewhat concerned by the increase in mortgage debt although in the Minneapolis District this had not been as sharp as in some other section. Mr. Powell felt that present open market policy was just about right for this period. If present policy, under which some tightening was taking place, were continued, the business recovery would gradually employ bank reserves more

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fully. This might cause some further tightening of money rates, he said, and if that tightening in rates got out of hand the System could conduct open market operations or do something else to relieve the situation. He saw nothing in the picture such as a speculative move or any other development (other than the mortgage situation to which he had referred) that might call for corrective action on the part of the System at the present time.

Mr. Johns said that he would associate himself very largely with the comments Mr. Sproul had made. Although he was not sure that he could see evidences of moderation in the rate of the upturn in activity, for some time he had been apprehensive and fearful that the System might be putting on the brakes too hard. Whether this was true or not, he was inclined to think that perhaps the Committee did not yet know just how hard it had put on the brakes. He would recommend against any further restriction and would suggest a continuation of the present policy with complete readiness to move in either direction. Mr. Johns emphasized that he would not hesitate to relax if such action seemed indicated by further developments. He would not favor an increase in discount rates at the present time.

Mr. Bryan inquired of Mr. Sproul whether, in connection with his reference to the upward movement in the British discount rate, there had been evidence of a movement of funds from New York to London or whether there had been evidence that funds had remained in London which might otherwise have moved out. If there had been such a retention or movement of funds, might it have had an effect in the domestic money market.

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Mr. Sproul responded that he did not think there had been or would be a substantial movement of funds which would seriously affect the domestic money market but that there might be a temporary movement that would assist the British in their position. Mr. Sproul stated that while he had attempted to get as much information on the movement of funds as possible, available information was only tentative and he had no estimates as to what the movement of funds between London and New York might be in the future.

Mr. Bryan stated that he would like to associate himself with the comments that had been made thus far. He was unable to see that the economic recovery was in any sense out of hand. He felt the recovery was moving very satisfactorily with some danger spots which might give trouble, such as the mortgage market. He agreed with what he took to be the sense of the other remarks, that there may have been some forces already at work effecting corrections in this market. Mr. Bryan said that he was in the somewhat difficult position of having said that he did not know quite what the policy of the Committee was and that, therefore, he found himself embarrassed in trying to comment on something he did not understand. However, he would dislike any further restraining measures until the effect of measures already taken had become more evident.

Mr. Irons said that the comments on the national picture reflected his impressions of the situation. He thought there had been less moderation of recovery in the Eleventh District than nationally. During the fourth quarter of 1954, there was a very sharp resurgence of activity in

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the Dallas District and for the most part that movement had continued on into the current year with activity at near-record levels in retail trade, employment, petroleum activity, construction, and general economic activity. It was difficult to see much beyond June of this year, Mr. Irons said, but he anticipated a generally favorable situation, particularly in building and construction, with total building 15 to 25 per cent ahead of a year ago. Petroleum would continue to improve. In agriculture, the situation varied from area to area. Some areas were still suffering from drought, but the agricultural outlook was not unfavorable on the whole. As to credit policy, Mr. Irons would not recommend any change from the policy that had been in effect in recent weeks. He had less concern than comments of some others indicated about being as restrictive as the Committee had been, and he did not think that at the present time conditions justified any relaxation. Neither would he favor an increase in the discount rate at this time, partly because he would like to see some of the Federal Reserve credit that might be needed by the market extended through the discount window. Mr. Irons also said he would not recommend a change in reserve requirements at present.

In the Philadelphia District, no marked changes have developed recently, Mr. Williams said. There was a decline in factory employment in January as compared with December but this decrease was less than a year ago, and unemployment claims were somewhat smaller than a year ago. New automobile registrations were 11 per cent higher in January 1955 than a year earlier. With respect to the national situation, Mr. Williams said

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that he retained his consistent position of watchful waiting. He felt the policy the Committee had been pursuing should be continued. He could see nothing on the price front or in the employment situation or in the inventory picture that would warrant any change in Committee policy. For the immediate future, he thought the Committee should continue to be in a position where it could move in either direction.

Mr. Earhart said that he concurred generally with views expressed thus far. In the Twelfth District, the situation might be described as a boom, he said. There was still a heavy inward migration of population, which acted as a stimulant to the economy; construction activity was high; and the generally high level of construction throughout the United States was serving as a stimulant to the important lumber industry of the Twelfth District. There was still some unemployment, however, which might be considered as largely frictional due to the continued influx of people. Mr. Earhart said that he had felt for some time that discount rate policy had not been entirely in line with open market policy and that the System had attempted to adjust day-to-day temporary needs for bank reserves through open market operations when frequently the adjustment might better have been accomplished through the discount window. He felt that individual banks needing reserves might have come voluntarily to the Reserve Bank if the discount rate had not been a penalty rate. He noted that recently short-term rates in the market had increased and there was more consistency between discount policy and open market policy. Mr. Earhart said that he found it difficult to think of credit policy merely in terms of the amount

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of reserves taken from the banks or furnished to them, or of the amount of excess reserves or free reserves; to him, it was more definite to think also in terms of money rates, which was a necessity when the discount rate was being considered. Thinking in those terms, Mr. Earhart said that with rates on Treasury bills and Federal funds now closer to but still below the discount rate, and with present open market policy, an increase in the discount rate would not be called for at this time. Mr. Earhart went on to say that some of the directors of the San Francisco Bank felt that the System currently should be more restrictive and some would like to see the discount rate increased, although he had not yet been ready to recommend it.

Mr. Fulton said that in the Cleveland District operations in the steel area were at a high level and profits were good. However, in some other parts of the District there were reports of almost a profitless economy although activity was high. Demand for loans was high in all parts of the District. There was some concern about stock market activity and the rapid rise in prices and there was some indication among banks that an increase in margin requirements to 75 per cent would have a salutary effect. Residential building continued at a high level and houses were being sold rapidly, although old houses were moving more slowly. Conditions in the stock market and in housing construction should be viewed with some apprehension, but it should be recognized that a cut-back in automobile production would have sharp repercussions in the steel industry. Mr. Fulton said that he too would like to see discount operations given a relatively more important place in System credit policy, and he would not recommend an increase in the discount rate at the present time.

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Mr. Leedy said that conditions in the Tenth District resembled those described by Mr. Irons for the Eleventh. Notwithstanding the performance of agricultural prices, conditions were, generally speaking, exceedingly good. Retail sales since the first of this year were showing a higher rate of increase than for the country as a whole, and housing was very active. For the country as a whole, Mr. Leedy could not quite subscribe to Mr. Sproul's appraisal. He felt that we might be underestimating the forces that were at work in the economy; the economic review by the staff gives little evidence of anything other than an enormous underlying surge. He felt the Committee should not be taking precipitate action toward slamming on the brakes, but it should be moving further along the line on which it had moved recently. With respect to the discount rate, Mr. Leedy felt the System was approaching the time when it should give serious consideration to a moderate increase. The present rate was the one in effect when the Open Market Committee was pursuing a policy of "active ease". If it was appropriate at that time, it would not seem to be the proper rate for the present time. Mr. Leedy said that he would like to see greater use made of the discount rate than had been the case for some time. He would not be fearful that an increase in the rate would have an undesirable effect on the Government securities market, feeling that some discounting of such an increase had already taken place. Mr. Leedy added the comment that the sentiment reflected in the stock market required that the Committee be acutely aware of the likelihood that it would have to put some additional pressure on the market.

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Mr. Balderston said that although the rate of housing and automobile production relative to probable demand seemed so imprudent as to give concern, so too did the amount of unemployment now existing in the face of the degree of recovery that the country seemed to have had. This contrast led him to favor a policy that would not induce unwanted tightness of psychological origin until the effects of the recent British action increasing its discount rate and of the Treasury's offering of a long-term 3 per cent bond had become more fully evident. During this period of watching, Mr. Balderston said that he would let the yield on Treasury bills rise to about the level of the discount rate, without changing the latter until the situation was more clear. It might be that modification of margin requirements without actually increasing the percentage should be contemplated when the discount rate was being considered. He would favor an increase in the discount rate only if the market seemed to be on the rise again to the point where it was stimulating excessive speculative fervor.

Mr. C. S. Young said that the situation in the Chicago District had not changed since mid-January, that sentiment was very bullish, and that automobile people were extremely optimistic and their enthusiasm had spread to all their suppliers and to many manufacturers. Mr. Young was not as optimistic as some persons, however, feeling that the current production rate of about 8 million cars a year could not be maintained for many months and that when a contraction came, it would have a decided effect in the Chicago District on both the automobile industry and suppliers. The mortgage market was expected to become a little tighter and, while the

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industry was very optimistic, the more responsible builders felt that they had to be very careful. Farm land prices were still rising and more liberal appraisals were being made. Farmers were not complaining as much about crop prices as they had. Mr. Young felt that the System should go slow in applying any further restrictions, commenting that while four of the directors of the Chicago Bank had indicated they would favor an increase in the discount rate, he personally had not felt like recommending such an increase to the directors until the outlook for the economy became clearer.

Mr. Robertson said that while he could not add to the information on the economic picture that had been presented this morning, he wished to express satisfaction with the general credit policy the Committee had been following recently, which he would characterize as a slightly restrictive policy. This was the time to be wary, he said, and the Committee should continue in a position where it could move in either direction in accordance with the signs of the moment.

Mr. Leach said that he had found no evidence in the Fifth District of speculative inventory accumulation. Business continued good but there was somewhat less optimism than a month ago, particularly with respect to the second half of 1955. This reflected doubts concerning the automobile and residential building industries after the middle of this year. Directing his comments mainly to the monetary situation, Mr. Leach said that he saw no reason why the Committee should be combating inflation or deflation at this time. He liked to feel, he said, that the Committee recently had

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not been restrictive, but that it had simply been taking up some of the slack in the situation. He would not now lean against either inflation or deflation, but he would stand up straight. The degree of tightness in the market recently had been about right. With respect to open market operations, Mr. Leach felt that this was by far the most important tool the System had and he would like to see it used on occasions when the Committee was combating inflation or deflation or for the purpose of meeting the longer run needs for reserves, but not for making day to day adjustments in the market. He thought the situation now called for keeping an even keel, and this called for more use of the discount mechanism which he felt had been neglected in the past two years. Mr. Leach said that the discount rate should not be permitted to lag so far behind other money market rates as it had in the last two years. He would prefer to see the rate changed say, five times a year, rather than twice a year. As to the present level, he felt it exactly right because market rates had caught up to it. Considering the whole matter broadly, however, the discount rate should be used more frequently. Mr. Leach would like to get away from using open market operations too frequently, and he hoped that from now on until some unusual need arose, the discount window would be the usual means for obtaining Federal Reserve credit, and that repurchase agreements would be used only when necessary. He was afraid, however, that conditions would be so tight that the Committee might soon have to furnish reserves through open market operations.

Mr. Mills said that he could not feel complacent with what Mr. Earhart had referred to as the "prevailing sentiment" expressed at the meeting. He was not complacent about a continuance of a level of around \$200-300

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million of free reserves or the consequences of having drawn the volume of free reserves down to that level. He then made a statement substantially as follows:

Data prepared by the Division of Research and Statistics of the Board of Governors projects System open market operations through the remainder of 1955 on a basis contemplating the maintenance of a \$200 million to \$300 million level of free reserves. This projection has not taken into account the effects of having previously reduced the volume of free reserves to the projected level. There is now evidence that in the process of reducing the volume of free reserves, multiple credit contraction has been engendered which has, in turn, caused the credit base to shrink. Whether System policy intended to contract the credit base is not clearly stated in the directives of the Open Market Committee, in any event such has seemingly been the result of policy action since the first of the year in withdrawing reserves.

The effects of withdrawing reserves have been accentuated by the fact that country banks historically maintain excess reserves in a way that is not practiced either by reserve city banks or central reserve city banks. That being the case, the impact of reserve withdrawals has fallen on the central reserve city and reserve city banks and particularly on the latter, in that they are not as accustomed to flexibly adjusting their reserve positions as are the central reserve city banks. In consequence, reserve city banks and those country banks who are the more active purveyors of credit have been put under considerable pressure, which up to the point that it has checked overinvestment policies and the overextension of real estate mortgage credit is desirable. However, it is quite possible that this pressure has been or will soon be too severe in its effects, of which indications are now appearing in the progressively softer market for U. S. Government securities brought about in considerable part by commercial bank liquidation of such securities as a means of maintaining their reserve positions.

The present market is also shadowed by the fact that Government security dealers are understandably less willing to make markets and take positions than would be the case in a more stable market atmosphere. All circumstances considered, it is now possible that the psychological effects of a falling market for U. S. Government securities may extend its disturbing influence beyond the investment fraternity and to the business community, thereby setting in turn a readjustment in industrial and commercial programming of an undesirable character. In the absence of conclusive

evidence that a lasting business revival has been established, an adjustment of this character could prove damaging to the national economy, especially if it should occur in conjunction with a weakening of the economies of England and of various Western European nations who may now offer less buoyant export markets for United States goods and, consequently, lend less support to domestic economic revival in this country.

Open market policy thinking has dwelt very largely on what should be considered an appropriate level of free reserves without perhaps taking into full consideration the economic consequences that stem out from the mechanics of producing such a level of free reserves. Consideration may now well be given to such consequences, with current open market policy adjusted accordingly. Such an adjustment might desirably take the form of providing a somewhat more liberal volume of free reserves to be available over the period of the next six weeks or longer, during which the opportunity can be taken to observe the direction of economic trends which, if they are strongly upward, can be met by curtailing, or, if downward, by maintaining or increasing the volume of free reserves above the levels projected in the present memorandum submitted to the Open Market Committee.

Certainly by early June a clearer picture should be obtainable of the course of economic events on which subsequent open market policy decisions can then proceed to be developed on a more day to day basis rather than on a basis which attempts to foresee the course of the economy for some months ahead. Adaptation to a shift in policy direction toward providing a somewhat more liberal volume of reserves could readily be undertaken at the time of the Treasury's tax collection period and in conjunction with the fluctuation of reserves pertaining thereto. A shift of policy taken in that atmosphere would be less obvious and, accordingly, less subject to challenging interpretations on the part of the investing public. Any change of policy undertaken at such a juncture would assume that increasing stringency in credit conditions can be avoided between now and the mid-March period of the Treasury's tax collection and fiscal disbursement activities.

As to the discount rate and a change in margin requirements, should the momentum that our policies have gathered broaden into a strong upward movement in interest rates, the presumption would be that it would be unrealistic to leave the discount rate at the present level for too long a period. If, however, conditions don't move in that tightening direction too severely, a case might be made for a change in margin requirements. If developments in the securities market moved upward rapidly, such an increase in margin requirements could be buttressed by an increase in discount rate. I would interpret it that our policy is one of restraint on

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reserves, but there are very decided limits to which that restrictiveness can be pressed. An increase in the discount rate can serve to give an indication of the thinking and economic policy of the System without at the same time producing a further tightening in the market. There would be the reasonable possibility that, if the discount rate were raised under those events, rates on new loans and new securities offered would tend to move toward the discount rate without an unfavorable effect that would be had by a withdrawal of reserves.

Mr. Vardaman said that he would like to highlight two phases of Mr. Sproul's analysis of the economic and credit situation. First, if as a result of expectations of a higher interest rate structure, there developed a condition of timidity among borrowers or lenders, this situation would require close watching so that it would not become too restrictive. Mr. Vardaman thought that possibly this point was now being approached. Second, with respect to the discount rate, he agreed with Mr. Sproul that it was healthy to consider an adjustment in the discount rate in relation to the British situation, feeling that if a differential existed which resulted in a movement of funds to London it would be helpful to us in the long run. Mr. Vardaman also agreed with Mr. Johns and Mr. Mills that we may not yet have felt the full effects of the policy that has been followed by the Committee recently, and it was his view that the System should not move in a more restrictive direction until it had a clearer picture of what has happened or is happening as a result of what the System has already done. Mr. Vardaman said that he would not wish to see the discount rate disturbed at the moment, although he agreed with other comments that it should be changed more frequently than has been the case in the past. While he would not wish to have the discount rate changed in any Federal

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Reserve District right now, Mr. Vardaman said that he felt the System was reaching a point where it could break away from a uniform discount rate.

Mr. Szymczak said that the comments pointed up the difficulties of monetary and credit policy. It was difficult to be restrictive in a specific area without in some way affecting the whole economy. It was clear, he said, that the Committee did not want to affect the economy generally on the down side. However, to the extent the Committee had been able to be a little more restrictive without causing a down turn, this was all to the good. Mr. Szymczak felt that there were three areas of concern, namely, residential construction and real estate credit, the up-trend in production due largely to automobile output, and the rise in activity and prices in the stock market. These were indicative of a trend in the overall economy. Some helpful changes might be made in the margin regulation short of raising margin requirements. However, if open market operations continued as they have recently, short-term rates could be expected to get out of line with the discount rate and that would call for an increase in the discount rate. Mr. Szymczak hoped that short-term rates would not move up too fast and necessitate an increase in discount rates. He would prefer to have about the amount of reserves in the market that are now there and he would try to maintain that position as equitably as possible among different groups of banks. This might require day-to-day open market operations. He would not change open market policy at present and, in general, he would continue just what the Committee was now doing.

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Mr. Johns said that he had limited his earlier remarks on the discount rate to the question whether an increase was needed at this time. He wished to add, he said, that he associated himself completely with the views expressed by Messrs. Earhart and Leach regarding the administration of the discount rate.

Chairman Martin stated that this had been an extremely good discussion of the economic situation and credit policy. He felt that in general the policy the Committee had been following had come as close as possible to satisfying the various views expressed at this meeting. His own view would lean a little on the side of less ease, he said, his general feeling being one of a little more confidence in the economic situation than had been indicated by some of the views this morning. Chairman Martin said that he recognized the fears that the automobile industry might not be able to sell all of the cars it would produce this year and that there might be a strike in that industry. However, he thought there was an amazing exuberance and vitality in the economy. While he wanted as much ease in interest rates as possible with a sustained economy, he hoped that ease would not go so far as to produce a level of activity that would have to be liquidated later on. The Committee should be careful not to permit so much ease that people would think they should postpone doing the things needed in their businesses. Chairman Martin said that he would support the general views of Mr. Sproul that the present policy be continued, and that the existing directive be renewed without change. Chairman Martin

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then read the first paragraph of the Committee's general directive and inquired whether any of the members felt that the wording should be changed at this time, and whether all of the members of the Committee were willing to stand on this directive as a statement of the policy to be followed by the Committee for the time being. None of the members indicated that any change should be made in existing policy or in the wording of the directive 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 fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion, (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

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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.

Mr. Mills inquired what would be the practical interpretation of the foregoing directive, that is, whether it was a mandate to maintain a fixed level of free reserves or whether it gave the executive committee latitude to make changes. Mr. Mills said that it was very difficult to foresee whether the projected level of reserves was such as to bring further downward pressure on the market, or whether it would be such as to require further tightening.

Chairman Martin inquired what Mr. Mills would suggest. His own view, he said, was that the level of free reserves was too high, whereas he gathered that Mr. Mills felt it was too low, and the question was, how could the Committee get in the middle? Chairman Martin thought this was a difficult matter to vote on and expressed the view that the Committee should be in an equalizing position through the management of the account, operating in the light of the policy directive and the discussion leading up to its adoption.

Mr. Robertson commented that the directive contained broad language which would permit the executive committee to operate flexibly so long as it stayed within the general policy contemplated by the clause providing that transactions should be in the light of current and prospective economic conditions and the general credit situation of the country, with a view to "fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion."

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Mr. Sproul said that his interpretation would be that the general directive called for the maintenance of about the level of reserves the Committee recently had been maintaining. It was also expected that member bank borrowing would take care of more of the adjustments of individual bank positions and of day-to-day fluctuations in reserves than had been the case in the recent past. The Committee would be expected to watch closely to see that the situation did not develop to a point where it was more restrictive than desired; it should watch interest rates, including rates in the capital market, to be certain that the effects of policy did not become more restrictive than was indicated by the foregoing discussion. If the volume of reserves, the level of bank borrowing, or the level of interest rates indicated the situation was becoming more restrictive than the discussion indicated was desired, then the executive committee should take action to relax.

Mr. Mills wondered whether there was a hidden restriction in this kind of an operation. He stated that as banks had been compelled to liquidate short-term Government securities, the reasons they might otherwise have had temporarily to adjust their reserve positions by borrowing were absent. Considering the lack of liquidity among commercial banks and less freedom of choice of going to the discount window as compared to selling intermediate or long-term securities, Mr. Mills visualized the possibility of rising concern among investors that could pose a real problem as bank selling exerted downward pressure on the U. S. Government securities market. If, under those conditions, banks had little choice but to come to

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the discount window, it might indicate not a tightness of position, but rather, a very stringent position.

Mr. Sproul said that if that situation came about or if it was indicated that it was developing in capital markets, the situation should be relieved through open market operations. He agreed with Mr. Mills that there was some hidden element of restriction in operations such as he had described. Banks were concerned with their liquidity as well as with their reserve positions. It would be necessary for the executive committee to watch not only the reserve position of banks but also short-term and long-term rates in evaluating this picture. In response to a question from Mr. Vardaman, Mr. Sproul expressed the opinion that the unwillingness of banks to borrow at the discount window tended to increase as the volume of discounting rose. However, to meet individual bank positions, Mr. Sproul felt that there would and should be additional borrowing.

Mr. Vardaman said that this was probably true of city banks but he questioned whether it applied to country banks. He felt that banks in smaller towns would hesitate to borrow unless their competitors nearby were also borrowing. He would not wish to delay open market operations until the volume of discounts had risen substantially.

Mr. Earhart stated that he had mentioned the use of interest rates as a guide to credit policy because it was not possible to know exactly what the results would be if a given level of free reserves were put into the market. Rates on Treasury bills or other securities were something that could be seen in specific terms and something which could be definitely

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understood. A Treasury bill rate closer to the discount rate would seem to be desirable. Mr. Earhart questioned the desirability of having a Treasury bill rate considerably below the discount rate with the resulting tendency to concentrate reserve adjustments in New York. Mr. Earhart's conception of the recent open market policy was one that would bring the Treasury bill rate closer to the discount rate. Open market policy should continue to be geared somewhat to that concept which should prevent credit from becoming tight.

Chairman Martin thought there was no way of specifying precisely how operations should be carried out. The multiple contraction of reserves to which Mr. Mills had referred might have an effect and, if business did not show any contraction, the market might get tighter. The educational processes of all these instruments was going on steadily in all communities, just as it was around this table. Chairman Martin doubted whether the Committee would have a recurrence of the developments of the Spring of 1953 because he did not think the same psychological situation existed. So far as the instructions to the executive committee and to the Manager of the Account were concerned, he felt that they had to be in terms of general directives such as had been issued in the past, with the understanding that the Committee did not want "knots" to appear on the tight side, any more than it wanted a loosening of the spigot to let reserves flow out on the easy side.

Mr. Thomas suggested a third measure in addition to the projections of free reserves and the course of money rates. The projections, he said,

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are measures of what performance might be if developments conformed to the seasonal pattern and to expectations. The question was, what is the actual performance of the economy. The volume of deposits or of required reserves might be considered to be the ultimate measure of performance and test of the effect of system policy. The actual factors affecting reserves since December had conformed very closely to the pattern of projections presented in the forepart of December, although there had been wide variations from day to day. Mr. Thomas commented that the volume of free reserves could be expected to approach zero or there might be negative free reserves during the next few days reflecting a large volume of borrowings at the Reserve Banks. Borrowings would be large not only at city banks but also at country banks. Mr. Thomas felt that one test was whether borrowing by banks from the Federal Reserve was causing them to extend credit at a slower rate than the Committee desired, or whether they were extending it at a faster rate than the Committee felt was desirable. If banks were extending credit at a faster rate than the Committee thought was desirable the discount rate might be increased to penalize borrowing; if they were contracting credit, or expanding at a slower rate than was desired, this might call for an increase in open market operations to relieve the banks of the need for borrowing.

Chairman Martin said he thought the answer was that the Committee could not prejudge operations beforehand. He came back to the general directive, stating that he felt it would govern a situation such as Mr. Thomas described, permitting action on both sides depending upon what seemed necessary at the time.

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In a further discussion, Mr. Mills said he thought the sentiment of the Committee was quite clear, that the Open Market Committee was content with a level of free reserves around the present level, and that there had been no dissent to the projected rapid and serious contraction in free reserves, perhaps to a point below the zero level.

Mr. Robertson did not think there was any intent in the Committee's directive as to a specific amount of free reserves. This was something that would depend on what the economy needed. There was nothing to bind the Committee to following a free reserve position which would be out of line with the needs of the economy.

Mr. Sproul concurred in the latter view, stating that the Committee should avoid "kinks" in the market, and that it might well be that it shortly would find it necessary to put some funds into the market if the projections of free reserves were borne out.

Mr. Rouse commented that it might well be that some additional reserves would be called for later this month during the period of heavy income tax collections when there might be a withdrawal of as much as \$850 million from the market for a temporary period.

Mr. Johns inquired who would be making monetary policy if a directive, worded in the general terms stated, were given to the executive committee with the suggestion that the executive committee determine the level of free reserves on the basis of its appraisal of the needs of the economy.

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Chairman Martin stated that he had not intended to bring the question up at this point but that he had contemplated suggesting later in this meeting that the full Committee consider whether the executive committee should be abolished. While he did not wish to have a discussion of the question at this meeting, he suggested that it be placed on the agenda for the next meeting of the Federal Open Market Committee. A decision to abolish the executive committee should not be made without full consideration, Chairman Martin said, but his thought was that, in practical terms, it would mean that only three additional Presidents of the Reserve Banks who were members of the full Committee and alternate members of the executive committee would need to come to Washington in order to have a meeting of the full Committee, rather than of the executive committee, with all members in attendance. He felt that Mr. Johns had raised an important question that had come up in some degree at various times in the past and while he had no question as to the propriety of the full Committee operating through the executive committee, it might be more effective if the executive committee were abolished and if meetings of the full Committee were to be held as frequently as necessary to carry forward Committee operations. Chairman Martin also said that he was very glad that Mr. Sproul had suggested that all members of the full Committee be invited to attend meetings of the executive committee. However, he would like to have the question whether the executive committee was needed at all considered carefully and discussed at the next meeting of the full Committee.

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Chairman Martin then reverted to the discussion of the interpretation of the directive from the full Committee to the executive committee, inquiring whether there were further suggestions. After brief discussion, it was understood that the executive committee would carry out the directive as approved, in the light of the discussion at this meeting.

Mr. Riefler then made a statement with respect to the availability of minutes and records of the Federal Open Market Committee, stating that a review of the list of those who now have access to the Committee's minutes and records, which by Committee direction are in the custody of the Secretary of the Committee, was made a few months ago. Mr. Riefler said that under current practices copies of the minutes are sent to members and alternate members of the Federal Open Market Committee, Presidents of the Reserve Banks who are not currently on the Committee, and officers of the Committee. In addition, certain members of the Board's staff in the Office of the Secretary and in the Division of Research and Statistics who are actively engaged in working on Committee matters have access to the minutes and records of the Committee when necessary. Mr. Riefler stated that the practices described had been followed for many years and that no change was suggested. However, to insure that minutes and records are available to all proper persons and not to others, he suggested that it would be desirable that the Committee confirm and authorize the continuation of existing practices. This would mean that the minutes and records of the Federal Open Market Committee and its executive committee could be made available to members, alternate members, and officers of the Committee,

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to Reserve Bank Presidents not currently on the Committee, and to such extent and at such times as may be needed, to such other persons having functions and responsibilities in connection with the work or the records of the Committee (including auditing) as may from time to time be specified by the Secretary of the Committee.

Chairman Martin stated that as he understood the suggestion it would mean that the Committee was specifically authorizing the inclusion of those involved in auditing the System open market account on the list of those already having access to the records. In response to a question from the Chairman, Mr. Vest stated that in his opinion the suggestion made by Mr. Riefler would be appropriate as a means of confirming the existing practices and would assure that those actually working on open market matters would, through the Secretary, have access to the minutes and records which were in his custody.

Chairman Martin commented that while he felt there was no question but that the records should be made available to the persons working on matters for the Committee to the extent that they needed them, it might not be desirable to place upon the Secretary the responsibility for passing on who should have access to the records. In this connection there was a brief discussion of the practices followed by the Presidents of the Reserve Banks in making available minutes or other open market records to members of their staffs. Some of the Presidents indicated that only they and the associate economist from the Bank currently elected by the Committee had access to any records other than those reflecting a completed

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action, while other Presidents indicated that they made the records available to such members of their staffs as might be working on open market matters at the request of the President at the time. During this discussion it was suggested that the matter be reviewed further with the understanding the actions of the Secretary prior to this meeting in making available records as outlined in his statement were confirmed, and with the understanding that pending further discussion of the matter, the Secretary was authorized to provide the minutes or other records to those specifically mentioned by him as working on open market matters, including persons auditing the System open market account.

This suggestion was approved unanimously.

Secretary's note: Subsequently, during this meeting Governor Robertson suggested and it was agreed that the Committee approve a procedure under which minutes and records of the Committee would be made available to officers of the Federal Open Market Committee and, with the approval of a member of the Federal Open Market Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or of a Federal Reserve Bank.

Reference was made to the resolution adopted by the Federal Open Market Committee on November 20, 1936, authorizing each Federal Reserve Bank to purchase and sell, at home and abroad, cable transfers and bills of exchange and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary or

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advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries. Mr. Sproul stated that, as had been the case for some years, accounts were now maintained with the Bank of Canada, the Bank of England, and the Bank of France. These were all small, their total book value approximating \$21,000, and with the exception of the Canadian account were practically unused. Mr. Sproul recommended, however, that they be continued as a means of maintaining an open account on the books of each of these banks which might prove useful upon occasion.

It was agreed unanimously that no action should be taken at this time to amend or terminate the resolution of November 20, 1936.

Before this meeting there had been sent to each member of the Committee a memorandum from Mr. Rouse and Mr. Leonard, Director of the Board's Division of Bank Operations, with respect to the allocation of securities in the System open market account among the several Federal Reserve Banks, as it would take place on April 1, 1955 under the formula approved in 1953. The percentage allocations to each Federal Reserve Bank, under this formula, would be based on the ratio of total assets of each Federal Reserve Bank to the total assets of all Federal Reserve Banks, computed on a daily average basis during the 12 months ending February 28, 1955.

It was agreed unanimously that no action should be taken at this time to amend or terminate the procedure for allocation of securities in the System open market account which was adopted pursuant to the action of the Committee at its meeting on June 11, 1953.

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Chairman Martin referred to the authority given to the Chairman of the Committee at the meeting on March 1, 1951, and renewed in March of each year since that time, to appoint a Federal Reserve Bank as agent to operate the System account temporarily in case the Federal Reserve Bank of New York was unable to function. He stated that the authority was adopted as an emergency measure and inquired whether any action should be taken to modify or terminate it at this time.

It was agreed unanimously that no action should be taken at this time to modify or terminate this authority.

There was presented a list of those authorized at the meeting of the Committee in March 1954 to receive the weekly open market report prepared at the Federal Reserve Bank of New York. In this connection, Mr. Riefler suggested that the existing authorization be modified to include not only the Secretary, the Economist, and the Associate Economists of the Federal Open Market Committee but to permit distribution of the report to such other members of the staffs of the Board of Governors or the Federal Reserve Banks as may be actively engaged in working on Federal Open Market Committee matters.

Unanimous approval was given to distribution of the weekly report of open market operations prepared at the Federal Reserve Bank of New York as follows:

1. The members of the Board of Governors.
2. The Presidents of the 12 Federal Reserve Banks.
3. Officers of the Federal Open Market Committee.
4. The Secretary of the Treasury.
5. The Under Secretary of the Treasury.

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6. The Under Secretary of the Treasury for Monetary Affairs.
7. The Assistant Secretary of the Treasury working on debt management problems.
8. The Fiscal Assistant Secretary of the Treasury.
9. The Chief of the Division of Bank Operations of the Board of Governors.
10. The officer in charge of research at each of the Federal Reserve Banks which is not represented by its President on the Federal Open Market Committee.
11. The alternate member of the Federal Open Market Committee from the Federal Reserve Bank of New York; the Assistant Vice President of the Federal Reserve Bank of New York working under the Manager of the System Account; the Managers of the Securities Department of the New York Bank; the Vice President in Charge, and the Manager, of the Research Department of the New York Bank; and the confidential files of the New York Bank as agent for the Federal Open Market Committee.
12. With the approval of a member of the Federal Open Market Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or of a Federal Reserve Bank.

Secretary's note: The foregoing list reflects the addition of item 12, in accordance with the understanding reached later during this meeting as to making minutes and records of the Committee available to individuals working on open market matters.

The meeting then recessed for luncheon and reconvened at 1:30 p.m. with the same attendance as at the close of the morning session except that Messrs. Williams and Wheeler were not present.

Mr. Robertson referred to the discussion at the morning session of the authorization for making minutes and other records of the Federal Open Market Committee available, stating that he would suggest that the Committee approve a procedure whereby such records would be made available to officers of the Federal Open Market Committee and, with the approval of a member of

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the Federal Open Market Committee or any other President of a Federal Reserve Bank, with notice to the Secretary, any other employee of the Board of Governors or a Federal Reserve Bank. This would, of course, be in addition to making such records available to Committee members and their alternates and to other Federal Reserve Bank Presidents. Mr. Robertson also suggested that if this authorization regarding minutes and other records of the Committee were approved, an appropriate corresponding change be made in the list of those authorized to receive the weekly open market report prepared at the Federal Reserve Bank of New York.

In response to a question from Mr. Vardaman, it was stated and agreed that the procedure suggested by Mr. Robertson would not authorize the making available of any confidential open market records to the Chairman or other directors of a Federal Reserve Bank.

Mr. Robertson's suggestion was approved unanimously.

Mr. Riefler stated that a related question involved the practice of distributing the special reports of open market operations prepared for meetings of the executive committee. In the past, he stated, these reports had been furnished to members of the executive committee and to all members of the Board of Governors, as well as to staff members actively working on open market matters, and he suggested that in the future they also be sent to all Presidents of the Federal Reserve Banks.

This suggestion was approved unanimously.

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At this point all of the members of the staff withdrew from the meeting with the exception of Mr. Riefler, Mr. Thomas, Mr. Rouse, and Mr. Sherman.

At Chairman Martin's request Mr. Robertson made a statement with respect to repurchase agreements with nonbank dealers in United States Government securities. Mr. Robertson's statement was substantially as follows:

Observation of our use in recent months of repurchase agreements with dealers in Government securities leads me to believe that it is a device that can be used effectively in our work. Consequently--and notwithstanding my doubts about the legality of this instrument--I propose that the Committee continue to use repurchase agreements where considered advisable, not as a supplementary technique in the regulation of credit, but admittedly for the purpose of enabling dealers in Governments to maintain broad and ready markets.

It would be appropriate to utilize and police this procedure in a manner similar to rediscount operations--an open window for carrying dealers at rates preferably above but in no event below the discount rate--in order to assist them in sustaining a closer and more continuous market. Dealers should feel assurance that the facility is always available to them within reasonable limits (perhaps dollar or percentage figures), as the discount window is open to member banks. Needless to say, the operation of a dealer's window of this nature would be subject to such policing as may be necessary to avoid its abuse by any dealer, or any use that unduly interferes with our general credit policies.

There followed a general discussion of Mr. Robertson's proposal, including consideration of the manner in which rates on repurchase agreements would be fixed in relation to the discount rate, the purpose of repurchase agreements in terms of facilitating open market operations and in terms of helping to maintain a market for Government securities with

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greater depth, breadth, and resiliency, and in terms of the possible value of a modified procedure with respect to repurchase agreements along the lines of Mr. Robertson's suggestion. In the course of the discussion, reference also was made to the procedure by which a dollar or other limit might be placed on the extent to which each individual dealer might utilize the repurchase facility under an "open window" arrangement, and question was raised as to the way in which a situation might be dealt with if the volume of Federal Reserve credit extended at the dealers' initiative under the proposed repurchase arrangement were to become so great as to conflict with open market policy.

Mr. Williams entered the room during the foregoing discussion.

At the conclusion of the discussion, Chairman Martin stated that he felt Mr. Robertson had made an interesting suggestion but that he did not think it could be acted upon at this meeting. He suggested, therefore, that Mr. Robertson's suggestion be made available to all of the members of the Committee and other Reserve Bank Presidents with a view to studying it between now and the next meeting of the full Committee, at which time it be placed on the agenda for further consideration. Chairman Martin also suggested that, in the meantime, the existing authorization for repurchase agreements be continued in the form approved at the meeting of the full Committee on June 23, 1954, except that the words "short-term" be deleted from provision "(c)" of the existing authorization, pursuant to the suggestion made at the meeting of the executive committee on February 8, 1955.

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Thereupon, upon motion duly made and seconded, and by unanimous vote, the authorization for repurchase agreements with nonbank dealers in United States Government securities was approved in the following form:

In lieu of the authority granted with respect to repurchase agreements at the meeting of the Federal Open Market Committee on March 4, 1953, the executive committee is hereby authorized to direct the Federal Reserve Banks, or any of them, to enter into repurchase agreements with nonbank dealers in United States Government securities at such times, in such amounts, and at such rates (or rate ranges) as the executive committee shall prescribe, subject to the following conditions:

1. Such agreements
 - (a) In no event shall be at a rate below which ever is 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 three-month Treasury bills;
 - (b) Shall be for periods of not to exceed 15 calendar days;
 - (c) Shall cover only Government securities maturing within 15 months; and
 - (d) Shall be used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.
2. Reports of such transactions shall be made to the Manager of the System Open Market Account to be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.
3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by a Federal Reserve Bank shall be sold in the market or transferred to the System Open Market Account.

In connection with the continuation of the existing authorization for repurchase agreements, Mr. Robertson stated that his agreement with the existing procedure was with the understanding that consideration would be given at the next meeting of the full Committee to his suggestion for a change in the authorization.

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Mr. Earhart stated that he had voted to continue the authorization for repurchase agreements but that he hoped that under present conditions there would not be occasion to set the rate for such agreements below the Federal Reserve Bank discount rate.

Mr. Rouse stated that this was also the attitude of the Manager of the System Open Market Account.

Chairman Martin stated that this was a pertinent comment which should be recorded in the minutes of this meeting.

Mr. Vest entered the room at this point.

Chairman Martin referred to the action of the executive committee on January 11, 1955 in recommending to the full Committee that the full Committee authorize the executive committee to acquire bankers' acceptances when consistent with the general credit policy of the Federal Open Market Committee; that it discontinue the establishing of a minimum buying rate on bankers' acceptances; and that it authorize the use of repurchase agreements covering bankers' acceptances. He stated that Mr. Robertson had not voted to approve this recommendation of the executive committee and suggested, therefore, that Mr. Robertson open the discussion of the question.

Mr. Robertson then made a statement substantially as follows:

During the past year a number of questions have arisen regarding Open Market Committee policy and practice in this field. The specific proposal before us today is that (1) we take affirmative action to acquire acceptances when consistent with our general credit policy, and that (2) we discontinue the minimum buying rate and the effective rate on acceptances.

The suggestion that we take the initiative in purchasing some \$20 to \$30 million of acceptances was advanced early last year, the purpose being to "free demand generally from administered

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rate constriction and to make market rates responsive to changes in the demand for and supply of acceptances". Although the underlying objective--to support and encourage the American acceptance market--is the same today, I feel that a more effective and acceptable procedure may be available.

Since 1952 the Open Market Committee has maintained a minimum buying rate for acceptances and the "effective rate" has been specified by the Manager of the Account and has been published regularly. Apparently there is some uncertainty as to the precise status and functions of the effective rate. During the heyday of acceptances, some thirty years ago, the Federal Reserve System supported the acceptance market by standing ready to buy acceptances virtually without limit at the Reserve Banks' current buying rates, and dealers sold acceptances to the Reserve Banks when they needed funds to tide them over periods of temporary stringency. It was thought at that time that the acceptance market was strengthened by thus "back-stopping" dealers and others who held portfolios of bills.

That arrangement seemingly worked satisfactorily and it may be advisable for us to act in accordance with a policy which has been tested by experience. On the other hand, if we are convinced that the objective of building up the acceptance market as an increasingly important element of the international money market justifies stronger measures, we might wish to maintain a posted rate for acceptances that would establish the market rather than back-stopping it. In other words, we could maintain a posted rate that would give an "edge" to the use of acceptances, rather than bank loans.

There is no pressing need for immediate action on this subject. It is my impression that the relationship between the acceptance market and our open market policies has not been worked out and clarified for many years, and calls for clarification. I therefore present for consideration the advisability of appointing a subcommittee to refresh our recollection of the place of the Reserve System in the acceptance market in the past, and the extent to which changed conditions call for a changed relationship.

However, if this Committee concludes that the matter does not merit a detailed objective study, it is my suggestion that our effective rate on bank acceptances should resume the status of the rates formerly maintained by the Reserve Banks--namely, to support the acceptance market and thereby to encourage increased use of acceptances by assuring dealers and others active in the market that the Reserve System stands ready to acquire acceptances substantially without limit, at a rate slightly above the "normal" market rate at the particular time, whenever the supply of bank acceptances outruns the demand for them.

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In other words, in order to advance our objective of strengthening the acceptance market, our published rate should reflect an open window comparable to the discount window--that is to say, an acceptance window that is prepared to absorb all offerings at the posted rate unless it appears that (1) the facility is being misused, or (2) the demands placed upon it are so great that they threaten the effectiveness of System monetary policy to an extent that cannot effectively or wisely be offset through operations in the open market. By this means, we can give solid assurance of the System's active support of the acceptance market without adversely affecting other phases of our monetary and credit policy.

Chairman Martin stated that, on behalf of the majority view in the executive committee, there were a variety of objectives contemplated by the committee's recommendation. His thought was that some modest participation by the Federal Reserve in the market for bankers' acceptances, which he conceived of as being the counterpart in the international field of the Treasury bill in the domestic field, would be quite desirable. The Federal Reserve System should avoid any "finagling" in the market, he said, but should participate in a very modest way to show the interest of the central banking organization in this market, which was expanding and which might become one of the important means for financing international trade transactions.

Mr. Sproul said that, as another member of the executive committee which had made the recommendation to the full Committee, he concurred in the statement made by Chairman Martin. He felt this kind of participation in the bankers' acceptance market was preferable to maintaining an open window for any sector of the market such as Mr. Robertson had suggested, since such an open window meant that the seller would have an automatic

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call on Federal Reserve credit even though the Reserve Bank was policing the operation. He felt that the recommendation of the executive committee for modest participation in the acceptance market would encourage the use of acceptances but should not be considered as a means of providing Reserve Bank credit automatically through an open window.

Mr. Williams stated that Chairman Martin had expressed his views in approving the recommendation made by the executive committee to the full Committee. His only additional point, he said, was that it seemed to him that if adoption of this resolution served to promote international trade, it would also be a step in promoting growth and stability in the domestic economy.

Mr. Leach stated that as a member of the full Committee he would go along with the recommendation of the executive committee but without much enthusiasm and without expecting any marked results. He felt the Committee would be making a mistake if it expected too much in the way of results but on the other hand, there was nothing to lose by the action and, since it offered a chance of helping the acceptance market, it was worth trying.

Mr. Earhart said that he held much the same view as that expressed by Mr. Leach. While he did not think the proposed action of the Committee would stimulate the use of bankers' acceptances particularly, he had no objection to following the recommendation.

Chairman Martin referred to Mr. Robertson's suggestion for a subcommittee to study the matter. He felt that while there could be a further

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study it would be preferable if the full Committee approved the recommendation of the executive committee, recording any dissent to that recommendation which any member of the Committee wished to place in the record.

Mr. Riefler stated that Mr. Rouse had suggested that, since the volume of acceptances acquired under the proposed resolution would be small, they be purchased for the account of an individual Reserve Bank, in order to save the bookkeeping that would be required if they were acquired for the System account with the necessary resulting allocation among the twelve individual Federal Reserve Banks.

Mr. Szymczak suggested that purchases be for the accounts of individual Federal Reserve Banks so as to avoid the necessity for allocation among the several banks of the relatively small figures of acceptances contemplated, and that in the event dealers failed to take up any acceptances under repurchase agreement, those also be held by an individual bank if they were not sold in the market.

There was then presented a draft of directive which Mr. Vest had prepared which was intended to carry out the recommendation of the executive committee, if approved by the full Committee. There was considerable discussion of the wording of this draft, during which Chairman Martin suggested that at this meeting, the full Committee approve in principle the recommendation of the executive committee, with the understanding that a revised draft of resolution to carry out the recommendation would be submitted to all members of the Committee and other Reserve Bank Presidents,

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that the executive committee would consider the draft at its next meeting in the light of any suggestions that might be made, and that the resolution would become effective when approved as to form by the executive committee. Under Chairman Martin's suggestion, the full Committee would now approve in principle the recommendation that it authorize the executive committee to acquire bankers' acceptances when consistent with the general credit policy of the Federal Open Market Committee; that it discontinue the establishing of a minimum buying rate on bankers' acceptances; and that it authorize the use of repurchase agreements covering bankers' acceptances.

Upon motion duly made and seconded, this suggestion was approved.

On this action, Mr. Robertson voted "no" on the ground that there appeared to be no adequate reason for the Reserve Banks' seeking actively to buy acceptances for their own accounts. He was inclined to believe that efforts in that direction were likely to be ineffectual or even injurious when market demand for acceptances is strong; and when supply is heavy as compared with private demand, the objective of supporting and encouraging the acceptance market could be achieved more effectively through the traditional policy of standing ready to purchase all seasoned prime acceptances offered to Reserve Banks at their published rates.

Mr. Vest withdrew from the meeting at this point.

Chairman Martin then brought up for review three statements of continuing operating policies of the Committee listed on the agenda for this meeting as 13.a., 13.b., and 13.c. These statements, which were last

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reviewed and continued without change at the meeting of the Committee on March 3, 1954, were as follows:

13.a. Decision 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 markets).

13.b. Decision that operations for the System account in the open market be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

13.c. Decision that 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; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

In response to Chairman Martin's inquiry as to whether there was any suggestion for change in or termination of the first of these three statements of operating policy, Mr. Robertson said that while he intended later on to propose a revision which would incorporate 13.a., 13.b., and 13.c. in one statement, he had no suggestion for change in the first of the three decisions.

Thereupon, it was agreed unanimously that the first of the three decisions listed above should be continued without change.

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Chairman Martin then referred to the statement set forth as 13.b. above, stating that at the meeting of the executive committee on February 8, 1955, it was suggested that the Committee clarify whether the foregoing decision was intended to apply to repurchase agreements. It was his suggestion that the limitations of the decision should not apply in the case of repurchase agreements, and he proposed that, to clarify this point, there be inserted in the decision the words "other than repurchase agreements" so that the first clause would read that it was the decision of the Committee that "operations for the System account in the open market, other than repurchase agreements, be confined to short-term securities..."

Mr. Sproul stated that although he was going to vote "NO" on the continuance of this statement of operating policy, he was not going to try to reargue the question at this time since he had no reason to believe he would be more successful today than he had been in past meetings when the subject had been under discussion. He said that he had been encouraged, however, by the public statement (contained in Chairman Martin's replies to questions submitted by the Subcommittee on Economic Stabilization of the Joint Committee on the Economic Report in connection with subcommittee hearings on December 7, 1954) that these operating policies are experimental, and by the warning this should convey to the market that there is no promise, expressed or implied, that these policies will always be followed. Mr. Sproul said that a continuing period of intensive study of how our present methods of operation are working and how they might be improved seemed to him to be indicated. He was following that course, he said, and he recommended it to other members of the Committee, lest they lapse into thinking

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that these questions have been settled for all time.

Mr. Robertson stated that the revision he intended to suggest in these statements would result in a change in the decision listed as item 13.b., and Chairman Martin requested that he present his proposed revision at this time in order that the Committee might have an opportunity to consider it before passing upon the continuation of the decision under discussion.

Mr. Robertson then made a statement substantially as follows:

At the September meeting of the Open Market Committee, Mr. Sproul indicated his intention to call up for discussion the actions taken in December 1953 and March 1954 providing that System Open Market account transactions should be entered into "solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets)". Mr. Sproul said he thought this reflected much too narrow a view of central banking and was misleading to the public, and that he did not believe open market operations could be entered into without concern for the costs and availability of credit.

I was struck at the time with the thought that, although there are some real differences of opinion among us as to how our operations should be conducted, there are also some apparent differences which must arise because the words and phrases we use mean one thing to one person and something else to another.

It was I who offered the motion in December 1953 to which Mr. Sproul objects. But I do not myself believe that open market operations should or can be entered into without concern for the cost and availability of credit. I certainly did not intend the December 1953 action to mean that we do not have such concern. I doubt if anyone who voted for the motion had such an intent. In March 1953 the Committee unanimously recognized that putting reserves into the market or withdrawing them from the market inevitably would affect prices and yields on government securities, which is another way of saying that such actions inevitably affect the cost and availability of credit.

There is a well-known legal principle, which happens to be based on sound sense, that a person--even a committee--is

presumed to intend the necessary consequences of his acts. An adult offender will not be permitted to say that he released the brakes of a car parked on a hill just for the sake of releasing them, and had no intention that the car should roll down the hill and smash into another car parked at the bottom. By the same token, this committee knows certain of the effects of supplying and withdrawing bank reserves, the chief of which is the effect on the cost and availability of credit. Surely no one, even among our critics, would charge that we turn on the motor, increase its speed, or turn it off, merely because we want to listen to a quiet hum, a loud hum, or silence, at the particular moment. The motor is switched on to make the machinery do its work.

The purpose of the motion of December 1953 was to remove from the executive committee the authority to make "swaps", leaving otherwise unchanged the substance of the previously adopted operating directives which grew out of the ad hoc committee's report. This was brought out in our discussion at the December 1953 meeting, when our action was described as being in accord with the March 1953 decision to intervene in the government securities market "solely to effectuate the objectives of monetary and credit policy". The question whether to engage in "swap" transactions at any particular time was considered sufficiently important to warrant a decision by the full Open Market Committee. That was the intent of the motion. If its language was such that it seems to some people to be an effort to state a new philosophy of central banking in capsule form and to be much narrower than the phrase "to effectuate the objectives of monetary and credit policy", then the language had best be changed to avoid such misinterpretation.

In the hope that something can be done to clarify issues and to avoid disagreement resulting from choice of words rather than matters of substance, I have tried my hand at drafting the following substitute motion to supersede the resolutions adopted in March, September, and December, 1953:

I move that the Federal Open Market Committee continue the following policies and practices until such time as they may be superseded or modified:

It is not now the policy of the Committee to support any specific pattern of prices and yields in the Government securities market, and transactions in the open market shall be undertaken

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solely for the purpose of influencing the volume of bank reserves and thereby the costs and availability of credit, in order to promote economic growth and stability (including correction of disorderly markets).

Transactions for the System account in the open market shall be confined (except in correction of disorderly markets) to short-term securities, preferably bills, and shall not include offsetting purchases and sales of securities of different maturities (i.e., "swaps").

During periods of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange.

I wish to reiterate that, in my opinion, the question whether our open-market activities should be confined to the short end of the market can never be answered, for all time, as a matter of unchangeable principle. We all must recognize that there are advantages to trading in Government bonds on occasion. There are also advantages to minimizing our domination of the market. I believe that the latter outweigh the former as a basis for normal operations under present conditions. At no time have we restricted the authority of the executive committee and the account Manager to enter into transactions with respect to securities of any maturity, in the event of a disorderly market. The point of this motion, like its predecessors, is simply that transactions in other than short-term securities, except in emergencies, should receive the specific attention of the full Committee.

It is also hardly necessary to point out that the effect of our policies is a matter of continued study by the Committee and staff, and I am sure no member of the Committee would hesitate to modify or reverse any policy if conditions changed significantly or if future developments demonstrated that our information, reasoning, or judgment had been faulty or incomplete and had led to adoption of policies that did not work out satisfactorily.

Chairman Martin stated that while Mr. Robertson's proposal impressed him favorably, this was the first opportunity that he had had to know of the

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suggestion, and he expressed the view that it would not be desirable to act upon the proposal without giving all members of the Committee an opportunity to study the suggested phraseology.

Mr. Sproul stated that while he was inclined to think that Mr. Robertson's suggestion took care of his objections to the third operating policy to be considered, set forth above as 13.c., he would still wish to vote "NO" on that portion of the proposal which related to the decision that operations for the System account in the open market be confined to short-term securities, etc. i.e., 13.b.

Chairman Martin suggested that under the circumstances the Committee give consideration at this meeting to the second and third statements of operating decisions in the form set forth above as 13.b. and 13.c., with the understanding that Mr. Robertson's statement and proposed revision which would consolidate the three continuing operating policies be sent to all members of the Committee for study and consideration at the next meeting of the full Committee. The Chairman also suggested that in considering 13.b., the Committee action be based upon his earlier proposal that the statement be revised to include a reference to repurchase agreements, so that it would read as follows:

Agreed, that operations for the System account in the open market, other than repurchase agreements, be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

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It was agreed that this statement should be continued in the revised form set forth above, Mr. Sproul voting "NO" for the reasons stated.

Chairman Martin then read the third statement of operating policy, listed as 13.c. above.

It was agreed that no action should be taken at this time to amend or terminate this statement of operating policy. On this action, Mr. Sproul voted "NO" for reasons previously indicated.

Mr. Leach stated that he had voted to approve the continuance of the three operating policies set forth above. However, he recalled that at the time the Committee appeared before Senator Flanders' Subcommittee of the Joint Committee on the Economic Report on December 7, 1954, Chairman Martin had expressed the view that there was greater depth, breadth, and resiliency in the Government securities market than there was at the beginning of 1953, in which year these operating policies were first adopted, whereas, Mr. Sproul, as Vice Chairman of the Committee, had expressed a contrary view. Mr. Leach felt that it would be helpful to the other members of the Committee if a study were made to show just what changes had occurred in the Government securities market since these operating policies were adopted.

Chairman Martin stated that he felt it would be very desirable to have such a study made and that Mr. Leach's suggestion would be given consideration.

Messrs. Rouse and Thomas withdrew from the meeting at this point.

The following pages (60-92) contain the minutes of that part of the meeting of the Federal Open Market Committee on March 2, 1955, which, except for the Secretariat, was held in executive session. This part of the meeting started at 2:40 p.m.

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