

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, January 11, 1955, at 12:56 p.m.

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

Mr. Balderston, Member of the Federal Open Market Committee

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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on December 28, 1954, were approved.

Upon motion duly made and seconded, and by unanimous vote, the action taken by the individual members of the executive committee on January 5, 1955 to instruct the Manager of the System Open Market Account to limit further than had been authorized by the executive committee at its meeting on December 28, 1954, the degree of ease being maintained in the money market by open market operations was approved, ratified, and confirmed.

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Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period December 28, 1954, to January 10, 1955, inclusive, were approved, ratified, and confirmed.

In response to a question from Chairman Martin as to open market operations in the immediate future, Mr. Rouse stated that beginning on Thursday of the current week, an increasing volume of reserves would become available to the money market and that in the light of the discussion at the meeting of the full Committee this morning, he would have in mind meeting this situation by permitting bills to mature without replacement and by some sales of securities from the System account. Mr. Rouse referred to the estimated pattern of reserve changes as presented by Mr. Thomas at the meeting of the full Committee which indicated that, in the absence of open market operations, free reserves might be expected to increase by some \$400 million during the week ending January 19. This would call for further action, Mr. Rouse said, and there was a possibility that some additional sales of securities would be required during the week ending January 26 in order to hold the volume of free reserves down to a level not in excess of around \$300 million.

In response to a question from Mr. Robertson as to whether the executive committee's program should be geared to holding free reserves to a level of around \$300 million, Mr. Sproul commented that the tenor of the discussion at the meeting of the full Committee today was that free reserves should be tending downward from the current level of between \$300 and \$400 million.

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In response to a question from Chairman Martin, Mr. Rouse stated that he did not think anticipated operations during the next two weeks would require a change in the limitations in the directive to be issued by the executive committee to the Federal Reserve Bank of New York.

Chairman Martin suggested that the directive be approved without change in the limitations, but with a change in the wording of clause (b) of the first paragraph to make it conform to the change approved by the full Committee this morning in its directive to the executive committee, i.e., that transactions for the System account be 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." This clause would replace the one in the directive issued on December 28, 1954, providing that transactions be with a view "to promoting growth and stability in the economy by maintaining a condition of ease in the money market."

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York, until otherwise directed by the executive committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable

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expansion, and (c) to the practical administration of the account; provided that the total amount of securities in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than \$750 million;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$500 million.

Chairman Martin referred to the understanding at the meeting on December 28, that the members of the executive committee would come to their next meeting prepared to take action with respect to making a recommendation to the full Committee regarding the suggestions contained in memoranda relating to bankers' acceptances. Copies of these memoranda, prepared in March, May, June, and December, 1954, had been distributed to all members of the committee before this meeting. In response to Chairman Martin's inquiry, Mr. Robertson stated that he had no comments to add to those already presented with respect to the proposals regarding bankers' acceptances.

Mr. Rouse stated that the proposal which had been made in the staff memorandum dated March 25, 1954, that the Manager of the System Open Market Account be instructed to purchase bankers' acceptances up to, say, \$20 or \$30 million, was not intended as a rigid commitment to purchase this volume of acceptances. What is important is not the absolute amount purchased but the principle of System participation in the market. Mr.

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Rouse went on to say that at the present time such purchases would not be in accordance with the action taken by the Open Market Committee at its meeting today regarding the credit policy to be pursued in the immediate future.

Mr. Sproul then moved that the executive committee recommend 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.

Mr. Sproul stated that the suggestion for authorizing the use of repurchase agreements covering bankers' acceptances was made with the thought that such action would go along with the rest of the proposal for taking steps to bring about a more freely functioning bankers' acceptance market. If the Federal Open Market Committee were to decide that repurchase agreements covering Treasury short-term securities were to be discontinued, he would assume the Committee would not authorize the use of repurchase agreements covering bankers' acceptances.

In a discussion of the current bankers' acceptance market, Mr. Rouse stated that activity had increased again during December and that the volume of acceptances outstanding at the end of that month was estimated at around \$875 million, an increase of something over \$100 million during the month. Mr. Rouse also said that a number of new names had appeared in the market, that the market for bankers' acceptances was

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broadening, that orders were being filled every day, and that there was no holdover of acceptance orders from one day to the next.

Mr. Robertson commented that it was apparent that the market for bankers' acceptances was growing and broadening without help from the committee.

Chairman Martin stated that he would support Mr. Sproul's motion but that he hoped the committee would bear in mind the comments made from time to time by Mr. Robertson with respect to the dangers of too active interference by the Open Market Committee in the market for bankers' acceptances.

Mr. Sproul's motion was then put by the Chair and carried, Messrs. Martin, Sproul, Szymczak, and Williams voting "aye", and Mr. Robertson voting "no".

Chairman Martin presented a draft of letter, prepared for his signature, to Mr. Edward F. Bartelt, Fiscal Assistant Secretary of the Treasury, reading as follows:

"As you know well, one of the most disturbing factors influencing the supply of member bank reserve balances from day to day is the fluctuation of the Treasury's deposit balance at the Federal Reserve Banks. Various staff members within the Federal Reserve System, as well as within the Treasury, have been studying the techniques through which funds are called from its depository banks by the Treasury, in the hope of finding some means for moderating the extremes of this fluctuation.

"The executive committee of the Federal Open Market Committee feels that this subject is of sufficient importance to warrant the suggestion from this committee that your staff investigate the possibility of developing techniques that

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might result in practical improvement. Our people both at the Board and at the Reserve Banks would be glad to work with your staff to that end, i.e., toward developing some means of reducing the frequency and extent of the disturbances to bank reserves and the money market that have been characteristic results of the daily swings in the Treasury's balance over recent years."

Upon motion by Mr. Sproul, the letter to Mr. Bartelt was approved unanimously.

It was agreed that the next meeting of the executive committee would be held at 10:45 a.m. on Tuesday, January 25, 1955.

Thereupon the meeting adjourned.


Secretary