

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, March 2, 1955, at 5:44 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Leach
Mr. Mills
Mr. Vardaman

Messrs. Balderston, Earhart, Fulton, Irons, Robertson, and Szymczak, Members of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
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

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

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

Upon motion duly made and seconded, and by unanimous vote, Mr. Sproul was re-elected Vice Chairman of the executive committee to serve until the election of his successor at the first meeting of the committee after February 29, 1956.

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Upon motion duly made and seconded, the minutes of the meeting of the executive committee held on February 8, 1955 were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System Open Market Account for the period since that covered by similar action of the executive committee on February 8, 1955, were approved, ratified, and confirmed.

Chairman Martin suggested that open market operations be carried out in the light of the discussion at the meeting of the full Committee earlier today, namely, that the committee endeavor to continue about the present degree of tightness or ease in the money market with a view to fostering growth and stability in the economy by maintaining conditions that would encourage recovery and avoid the development of unsustainable expansion, and that it be understood that action could be taken either to bring about greater ease or less ease in the market within the terms of the Committee's general directive, depending upon what seemed necessary at the time.

Mr. Sproul stated that at the meeting of the executive committee on February 8, he had raised a question as to the desirability of providing reserves through purchases of short-term securities other than bills at a time when the market was becoming bare of Treasury bills. Mr. Robertson had raised the question whether the New York Bank already had authority to operate in a sector of the short-term market other than in bills. Mr. Sproul stated that under the action taken by the executive committee at its meeting on June 23, 1953, the executive committee had instructed the

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management of the System Open Market Account to confine its operations to Treasury bills. Mr. Sproul suggested that this instruction be reviewed at this time since it had been adopted under different conditions from those now existing.

Chairman Martin inquired whether Mr. Sproul felt it would be desirable to amend the instruction to which he had referred, so as to indicate that in the future operations for the account be carried on through purchases or sales of short-term Treasury securities, preferably bills, and Mr. Sproul responded that this would seem to be a broad instruction which would apply under existing conditions.

Thereupon, Mr. Mills moved that the New York Bank be instructed to effect transactions for the System Account through purchases or sales of short-term Treasury securities, preferably bills. This motion was approved by unanimous vote.

In response to a question from Chairman Martin, Mr. Rouse suggested that, in view of the tax payment period that would occur during the next few weeks, the limitation in the second paragraph of the directive to be issued to the New York Bank be increased from \$500 million to \$750 million.

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

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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 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 March 2, 1955 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 \$750 million.

Mr. Rouse suggested that consideration be given to the inclusion in the directive from the executive committee to the Federal Reserve Bank of New York of a paragraph such as had been incorporated in the directive from November 6, 1953 to November 9, 1954, inclusive, which would authorize the sale of Government securities from the System Account to the Treasury for gold certificates. The purpose of such an authorization, Mr. Rouse said, would be to assist the Treasury in complying with debt limitation provisions should that be necessary during the next few months. It was understood that this would be considered at the next meeting of the executive committee.

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Mr. Sproul then referred to a report of operations of the Securities Department at the Federal Reserve Bank of New York which was prepared under date of January 1955, copies of which were sent to all members of the Federal Open Market Committee and to other Reserve Bank Presidents by him under date of February 1, 1955. Mr. Sproul suggested that it would be helpful if the members of the Committee and other Reserve Bank Presidents would study this report dealing with coordination of activities between the Committee and the management of the System Open Market Account and make any comments or recommendations they felt would be desirable. He added that their comments would be welcomed by the Federal Reserve Bank of New York.

Chairman Martin stated that he would like to second Mr. Sproul's suggestion and to reiterate what he had said at the meeting of the full Committee earlier today, that the report to which Mr. Sproul referred was a very real contribution to the work of the Open Market Committee and should prove to be very helpful.

Mr. Thomas stated arrangements had been completed whereby the telephone hookup between the New York Bank and representatives of members of the executive committee, made at 10:45 each morning in accordance with the understanding at the meeting of the executive committee on May 11, 1954, would include the Richmond Bank commencing tomorrow morning in place of the Philadelphia Bank, as had been the case while Mr. Williams was a member of the executive committee.

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It was agreed that the next meeting of the executive committee would be held on Tuesday, March 15, 1955, at 10:45 a.m.

Thereupon the meeting adjourned.


Secretary