

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, March 15, 1955, at 10:45 a.m.

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

Messrs. Balderston, 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  
Messrs. Daane and 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 Re-  
search and Statistics, Board of Governors  
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

Before this meeting there had been sent to the members of the committee a report of open market operations covering the period March 2 to March 10, 1955, inclusive, and at this meeting there was distributed a supplementary report covering commitments executed March 11 to March 14, 1955, inclusive. Copies of these reports have been placed in the files of the Federal Open Market Committee.

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Mr. Rouse said that the market had been very quiet and steady since the last meeting of the executive committee with no material change in rates. Yesterday the account was prepared to make repurchase agreements with dealers and one contract in the amount of \$13 million was entered into, that contract to mature today.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period March 2 to March 14, 1955, inclusive, were approved, ratified, and confirmed.

Mr. Young then made a statement with respect to the economic situation, his remarks conforming in substance to those contained in the staff memorandum dated March 11, 1955 which was distributed before this meeting. Mr. Young summarized the situation by stating that economic activity increased further in February and early March, with gross national product in the first quarter of this year estimated at virtually the \$370 billion peak rate of the second quarter of 1953. Recovery had been broadly based on expansion in demands of business, consumers, and State and local Governments, while defense spending has leveled off. The industrial production index is estimated at 133 in February and 134 in March, a rise of 9 per cent from a year ago. Construction activity and real estate markets have continued strong. Manufacturing employment and average hours of work increased in February while unemployment declined moderately further after allowance for seasonal influences. Wholesale prices declined slightly over the past month, primarily as a result

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of reductions in prices of some farm production and cessation of the earlier rise in average prices of industrial materials. Mr. Young also referred to the Board's Survey of Consumer Finances, released March 14, indicating that consumers are much more optimistic than a year ago about their own income prospects and the outlook for general business conditions. He also mentioned the Commerce - SEC Survey of business plans for plant and equipment outlays, indicating that the steady decline in such spending had ended and that a rise was in prospect for the second quarter of 1955. For the year 1955 as a whole, business spending was expected to be slightly larger than in 1954.

Mr. Thomas then made a statement with respect to the capital markets, the Treasury cash position, and bank credit and the money supply. He pointed out that in recent weeks changes in the total money supply had conformed fairly closely to the usual seasonal pattern; bank loans had increased more than usual while holdings of Government securities had been reduced. He also commented on bank reserves and distributed a tabulation showing an estimated pattern of free reserves during the next several weeks. In his review of the figures of free reserves, Mr. Thomas indicated that it was particularly difficult to project the timing of heavy Treasury tax receipts in the next few weeks. In the absence of further open market operations, there might be a negative quantity of free reserves during the week ended March 23, with a substantial increase during the following week. After reviewing these figures and commenting on prospective Treasury financing, Mr. Thomas expressed the view that no particular action

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might be required on the part of the Federal Reserve in order to supply reserves in connection with the Treasury financing expected to be announced shortly.

Mr. Rouse stated, in response to an inquiry from Chairman Martin, that the most important comment he could make regarding the market was its thinness, beyond the very short-term area. The strength in the short-term issues was due to a concentration of corporate buying of Treasury bills and other short-term securities, and banks had been able to sell those securities at good prices whenever they needed to do so. The available supply of bills in banks had been reduced so that they were very sensitive to anything the Federal Reserve might do in the market. So far as the Treasury's forthcoming tax anticipation offering was concerned, Mr. Rouse thought it would be in good demand assuming it would be in the form of tax anticipation certificates and offered for payment through tax and loan account.

Chairman Martin then called upon Mr. Sproul who said that he was in agreement as to the continued strength in the economy over the near term. Open market policy is geared to foster such growth and the increase in employment which should come with it, so long as it is not too much padded with speculation and, therefore, unlikely to be sustained. There is, as yet, no convincing evidence that this is the case and expectations concerning the second half of the year are still modest. Meanwhile, what the committee has already done has helped to reduce the liquidity of the banks and to increase their sensitivity to further credit

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restraint, and there has been a not inconsiderable repercussion in the capital markets. Mr. Sproul went on to say that in the existing economic situation and in line with the general directive from the full Committee, he thought we should keep on the pressure but not increase it at the moment. That would mean, apart from gyrations in connection with tax payments this week and next, that free reserves might fluctuate from around \$200 million to a small minus figure, as they have done since late February; borrowing at Federal Reserve Banks might be upwards of half a billion; and Treasury bill rates would be higher when special nonbank demands, which have held them down, have been satisfied. Mr. Sproul thought that the tax date gyrations which would run up reserves and then run them down could be ignored--this would be only a matter of three days or so, and the situation is well known. Mr. Sproul also stated that the Treasury would come to the market, probably offering on March 22, for payment at the end of the month, about \$3 billion of tax anticipation certificates. This will require some bank reserves. When the Treasury paper has been placed, we would be in a better position to determine the action necessary--whether sales or purchases--to regain or maintain our position of late February and early March. Mr. Sproul thought that right now it doesn't look as though the Committee would have to do much of anything before its next meeting.

Mr. Leach stated that he understood that the executive committee's instructions from the full Committee were in effect to keep about the same degree of tightness or ease in the market that had existed at the

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time of the meeting on March 2. Mr. Leach felt that had been done and added the comment that he would not interpret the instructions as requiring day to day adjustments in order to maintain any definite level of free reserves. He also said that, looking ahead, he would let the variations in the market which would result from the Treasury's tax anticipation certificates "take care of themselves". He thought the Committee should keep on with about what it has been doing. In addition to watching free reserves, it should watch borrowings at Federal Reserve Banks, rates on Federal funds and Treasury bills, and yields on the 2 1/2 per cent Treasury bonds, and should continue to maintain about the same degree of tightness that had existed recently.

Mr. Mills said that he was reassured by Mr. Sproul's statement that he felt the market could look after itself over the next two weeks, especially if there should be some little degree of ease from the existing situation. However, he did not have Mr. Sproul's complacency about the fact that we had reduced the liquidity of commercial banks to the point where they were extremely sensitive to changes in the market. Looking to the short run, Mr. Mills said, it would seem that the tenor of the discussion was to ignore developments in the stock market and the very substantial drop in stock prices and to look upon that drop as a correction and a change in yields. However, in the eyes of the man on the street who has seen the value of his securities shrink very abruptly, this change could be disturbing to public psychology. If public uneasiness with the

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drop in stock prices were accompanied by a simultaneous falling off in prices of United States Government securities, that uneasiness might result in concern that was not desired. Mr. Mills said that he would hope that for the immediate future the market would ease somewhat and that in so doing it would result in a stabilization in prices of United States Government securities. If, on the contrary, there should be a further drop in Government securities prices which would unsettle the feelings of banks, particularly country banks whose free reserves were being drawn down below any recent levels, we could provoke a problem that would be most difficult to cope with.

Chairman Martin inquired whether Mr. Mills felt that there was a weak undertone in the Government securities market, and Mr. Mills responded that indeed he did think so.

Mr. Rouse then commented, in response to Chairman Martin's request, on the Government securities market, stating that some persons in the market felt that the amount of savings might not be sufficient to meet the demand and in that respect there might be a decline in prices over the coming year. As far as the next two weeks were concerned, Mr. Rouse said that he saw no particular problem in terms of confidence in the market.

Mr. Fulton said that there was a great deal of optimism in the Cleveland District regarding the industrial outlook. In fact, some steel producers felt that a decline in takings by the automobile industry would

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relieve their situation to the extent that it released production to meet demand in other lines of activity. Users of steel had not built up inventories. Mr. Fulton said that the banks were not heavily in debt to the Federal Reserve Bank of Cleveland at the present time but that he would be glad to see a rather more frequent use of the discount window as a means of obtaining a fair amount of the reserves that might be needed, rather than to have such reserves supplied through open market operations. He looked to see demand for loans from member banks maintained but he did not feel that the System should put much more reserves into the market on its own volition, and he generally concurred in what Mr. Sproul had suggested regarding open market operations for the immediate future.

Mr. Irons stated that he generally concurred in most of what had been said. He had the impression that the national picture had been good during March. In the Dallas District, there had been some further strengthening of economic activity. Banks were not borrowing in that district and country banks apparently were in a position to meet any loan requirements they might have. There seemed to be no tightness indicated for the next two weeks. Mr. Irons felt that what the committee had been doing should be continued for the immediate future.

In response to a question from Mr. Szymczak, Mr. Mills stated that he would rely on "feel" of the market in determining what course to pursue during the next few weeks as to providing additional reserves. If a

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feeling developed which resulted in depressing prices of Government securities, he would not rely on repurchase agreements alone to meet the needs of the market but would make outright purchases of Treasury bills.

Other members of the committee indicated that they had nothing to add to the discussion.

Chairman Martin stated that he concurred with what seemed to be the majority view as to open market operations, that is, that it did not seem necessary to do very much in the period immediately ahead. He said that he was still leaning a little toward the tighter side, just as Mr. Mills was leaning toward the side of easing conditions in the market, and the problem would seem to be for the management of the account to steer a course in the middle.

In response to Chairman Martin's question as to whether the directive to the Federal Reserve Bank of New York should be changed, Mr. Rouse stated that he saw no need for a change in the existing limits at this time. It was suggested, however, that it would be desirable to include in the directive the paragraph which had been included for some time prior to November 1954 authorizing the sale to the Treasury for gold certificates of Government securities maturing within less than one year.

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:

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(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 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 \$750 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate \$500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Before this meeting there had been sent to the members of the committee a draft of proposed resolution with respect to carrying out the decision of the Federal Open Market Committee at its meeting on March 2, 1955, to acquire a portfolio of bankers' acceptances, such authority to

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be given to the executive committee to become effective when the executive committee had approved a suitable form of resolution. There had also been sent to the members of the committee a suggested revision in the draft of resolution prepared by Mr. Vest.

There followed a general discussion of the draft of resolution and of the procedure contemplated for acquiring acceptances in accordance with the decision approved in principle at the meeting of the full Committee on March 2. During this discussion, Mr. Rouse stated that the purpose in suggesting certain changes in the draft of resolution prepared by Mr. Vest was to help assure that banks executing acceptances would continue to go through regular dealer channels in marketing these acceptances rather than to sell them directly to the Federal Reserve Banks.

Mr. Leach inquired whether, if the draft of resolution were approved in a form incorporating changes suggested during the meeting, it would be necessary for the executive committee to issue an instruction to the Federal Reserve Banks, and Mr. Riefler responded that it would be contemplated that an appropriate directive would be issued by the executive committee to the Reserve Banks in order that they might carry out the program in accordance with the full Committee's directive.

During the discussion of this matter Mr. Szymczak withdrew from the meeting to keep another appointment.

At the conclusion of the discussion, tentative agreement was reached on a form of directive from the full Committee to the executive committee, to be made effective at such time as the executive committee

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formally approved the wording of the directive, in accordance with the action of the full Committee on March 2, 1955. At Chairman Martin's suggestion, however, it was understood that the procedure contemplated by the resolution would not be made effective at this meeting but that it would be considered at the next meeting of the executive committee, at which time a draft of resolution from the executive committee to the Federal Reserve Banks would also be presented for the consideration of the committee.

Chairman Martin stated that the next meeting of the executive committee would be held at 10:45 a.m., on Tuesday, March 29, 1955.

Thereupon the meeting adjourned.

  
Secretary