

FORTY-FIRST

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1954

1954, this decrease in the minimum buying rate was in recognition of the existing market conditions and developments and was made in accordance with the Committee's general policy of actively promoting a condition of ease in the money market.

3. Repurchase Agreements.

The Committee modified the authority granted to the Federal Reserve Banks to enter into repurchase agreements with nonbank dealers in United States Government securities so as to provide that the rates or rate ranges on such repurchase agreements would be prescribed by the executive committee rather than by the Manager of the System Open Market Account, as had been the case since mid-1952. This action did not modify the policy with respect to the use of repurchase agreements, which remained subject to the general limitation adopted on July 22, 1952, that in no event should the effective rate be below whichever was 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 3-month Treasury bills.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Leedy, Mills, Robertson, Szymczak, Vardaman, Williams, and Young. Votes against this action: none.

SEPTEMBER 22, 1954

1. Authority to Effect Transactions in System Account.

The Committee again renewed without change the directive to the executive committee which was adopted in December 1953, and continued without change at the meetings on March 3 and June 23, 1954. This directive, which provided as the current credit policy of the Committee that transactions in the account should be with a view, among other things, to "promoting growth and stability in the economy by actively maintaining a condition of ease in the money market," is set forth on page 92 of this report.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Bryan, Leedy, Miller, Mills, Robertson, Szymczak, Vardaman, Williams, and Young. Votes against this action: none.

The Committee gave attention to developments in the economy since its June meeting, particularly to the "sidewise" movement that had been taking place during the summer months, and to the question of how long the economy might continue such a movement before showing a definite upturn or downturn. The Committee felt that the policy of "active ease" that had been pursued since late 1953 had helped to maintain a stable economic and business situation which, in turn, had given encouragement to investors.

It was the view of the Committee at this time that the ready availability and low cost of bank credit and capital funds had maintained a monetary climate favorable to business expansion and high employment. Although the economy had been on a plateau for several months, following cessation of the moderate decline that had taken place in output and employment between the summer of 1953 and late spring of 1954, there was some evidence that there might be an upturn in the autumn months. Inventory liquidation had continued, but further declines in Government defense outlays were expected to be small, private capital investment and State and local capital outlays were holding up well, and consumer spending had remained high.

At the time of this meeting there had not been an upturn in economic activity which appeared to warrant any reduction in the flow of money and credit and the Committee believed that in supplying reserves to the market in the weeks ahead, any doubts should be resolved on the side of ease rather than the reverse. The Committee recognized that credit policy was only one part of the whole complex, but it felt that the economic outlook at the time warranted a continuation of the existing credit policy of actively maintaining a condition of ease in the money market, and it therefore renewed its directive in the same form that had been approved at the three preceding meetings.

DECEMBER 7, 1954

1. Authority to Effect Transactions in System Account.

The following directive to the executive committee was approved:

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 promoting growth and stability in the economy by maintaining a condition of ease in the money market, (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 billion dollars.

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 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 billion dollars.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Balderston, Bryan, Leedy, Mills, Robertson, Szymczak, Vardaman, Williams, and Young. Votes against this action: none.

This directive was changed in only one respect from the directive approved at the December 1953 and the March, June, and September 1954 meetings: the word "actively" was deleted from clause (b) of the first paragraph so as to provide that transactions in the System open market account should be with a view, among other things, "to promoting growth and stability in the economy by maintaining a condition of ease in the money market." For a year preceding this meeting, the clause had provided that transactions should be with a view "to promoting growth and stability in the economy by *actively* maintaining a condition of ease in the money market."

The Committee's review of the economic situation at this meeting showed that expansion in the economy had started to take place during the fall months, following a period of relative stability during the second and third quarters of 1954. For more than a year, the Committee had been following a policy of aggressively maintaining a condition of ease in the money market as a means of facilitating economic recovery, recognizing that monetary policy was only one factor in the complex of elements on which an upward movement might be based. In evaluating the situation, the Committee took cognizance of evidences of expansion available from data on production, employment, capital expenditures, Federal defense outlays, construction, and commodity prices, and also of the sharply increased activity and price levels in securities markets as well as other less tangible manifestations of a speculative attitude in some areas.

A re-examination of the policy of "active ease" in the light of this economic review led the Committee to the conclusion that the developing economic situation did not warrant continuing as active a program of supplying reserves to the market as had been followed during the preceding year, although it did not feel that a policy of credit restraint was called for at the time.