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 Monday, May 7, 1951, at 2:30 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Riefler, Assistant to the Chairman, Board of Governors
Mr. Young, Director, Division of Research and Statistics, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Leach, Economist, Division of Research and Statistics, Board of Governors

Mr. Rouse presented and commented upon a report prepared at the Federal Reserve Bank of New York covering transactions in the System open market account during the period March 8 to May 4, 1951, inclusive. A copy of the report has been placed in the files of the Federal Open Market Committee.

In response to a question from Mr. Martin, Mr. Rouse also reviewed the extent to which the System had operated in the market since April 9, 1951, the first full business day following the closing of the books on the recent conversion offering of the Treasury, and in the course of his comments brought out that there had been a net reduction of $571 million in System holdings of Government securities during the period April 9 to May 4, 1951, inclusive.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period March 8 to May 6, 1951, inclusive, as reported to the members of the executive committee, were approved, ratified, and confirmed.

Mr. Martin commented on questions he had in his mind as to the effectiveness and extent of System operations in the direction of providing an adequate market for Government securities in carrying out the commitment of the Federal Open Market Committee to maintain an orderly market, and there was a general discussion of the matter.

In connection with a discussion of recommendations to be made to the Treasury with respect to Treasury financing, Mr. Martin raised the question whether the September 2's should be called. This was discussed in the light of arguments advanced for and against a call, and it was the consensus that the issue should not be called, having in mind that if such action weakened the position of callable bonds the System should be prepared to provide whatever support was necessary in the interest of orderly market conditions.

In a discussion of what, if any, steps should be taken at this time to raise new money, consideration was given to the suggestion that the

Treasury offer a new series of tax savings notes and it was the view of the committee that a recommendation should be made to the Treasury that such a series be offered. In that connection, Mr. Rouse submitted a schedule of interest rates which had been prepared at the Federal Reserve Bank of New York which would provide a yield on a new certificate series of 1.44 per cent through the first six months and of 1.88 per cent if held for a three-year period.

The question of possible recommendations with respect to refunding of Treasury securities maturing in June, July, and possibly August, was then brought up and Mr. Martin stated that the Treasury had indicated it would like to make an announcement soon of the refunding of the June, July, and August maturities.

Mr. Sproul stated that he felt such a move would be undesirable, that the committee had attempted to get away from early refunding announcements in order to avoid having the market frozen for an unnecessarily long period ahead, and that he felt it would be preferable for the announcement of each refunding issue to be made in the normal course of time shortly ahead of the maturity dates of the securities to be refunded unless, of course, there were to be a combined offering of securities to refund more than one maturity.

Mr. Martin responded that the Secretary of the Treasury had indicated to him concern over the possibility of leaks of information growing out of discussions and recommendations by the Open Market Committee and others considerably in advance of refunding dates and that his desire to make an immediate announcement of refundings for all maturities for June, July, and August, including an announcement with respect to calling the September 2's and possibly a new series of savings notes, was prompted by the desire to avoid possible leaks which might tie the hands of the Treasury in its refunding operations. For this reason, Mr. Martin said, it might be preferable if there were no discussion at this time of recommendations to be made to the Treasury on this subject.

Mr. Sproul reiterated the view that announcements of Treasury refunding offerings ought to be deferred as long as practicable. He added that in the present case, the committee could discuss various alternative possibilities without making a definite recommendation to the Treasury, at this time, as to a particular refunding offer. He said further that he did not think the discussions of the committee should or could be based on the assumption that if it had a discussion there were going to be leaks of information to the market. He suggested that the committee proceed to consider what recommendations might be made to the Treasury in connection with the forthcoming refunding operations without submitting a specific recommendation at this time, as to any one refunding offer preferred by the Committee.

During the ensuing discussion, Mr. Sproul read from a memorandum which he had prepared under date of May 3, 1951, in which he outlined alternative methods that might be followed in the June, July, and August refunding operations.

At the conclusion of the discussion, Mr. Sproul moved that the following statement of recommendations be approved by the executive committee for presentation to the Treasury:

1. That the Treasury announce, presumably tomorrow, that the September 2's of 51/53 would not be called.

2. That the Treasury announce at the same time a new issue of savings notes with a schedule of rates around the schedule attached hereto.

3. That announcement of the refunding be made as late in May as possible. That announcement of the August refunding, if not included with the June and July refunding, be made as late in July as possible.

4. The committee suggested the following alternative methods of refunding for consideration by the Treasury:

"a. For the June and July refunding, a single 12-1/2 months note dated June 15, 1951, and maturing July 1, 1952, with a coupon of either 1-7/8 or 2 per cent depending upon the market at the time the announcement is made. This might be followed in August by an 8 months certificate dated August 1, 1951, and maturing April 1, 1952, with a coupon of either 1-3/4 or 1-7/8 per cent.

b. For the June and July refunding, a single 9-1/2 months certificate dated June 15, 1951, and maturing April 1, 1952, with a coupon of either 1-3/4 per cent or 1-7/8 per cent depending upon the market at the time of the announcement. The August refunding could then take the form of an 11 months certificate dated August 1, 1951, and maturing July 1, 1952, with a coupon of 1-7/8 or 2 per cent.

c. The June, July, and August refunding could be announced as a single package with a choice to holders of a 9-1/2 months certificate dated June 15, 1951, and maturing April 1, 1952, with a coupon of 1-3/4 or 1-7/8 per cent or a 12-1/2 months note dated June 15, 1951, and maturing July 1, 1952, with a coupon of 1-7/8 or 2 per cent depending upon the market at the time of the announcement."

Mr. Sproul's motion was put by the Chair and carried unanimously.

In a further discussion, it was agreed that in conducting orderly market operations, in the absence of further instructions from the committee, it would be understood that the Federal Reserve Bank of New York would not permit the longest-term restricted Treasury issues to decline below 96-3/4, but that no action would be taken to cause prices on these securities to move to that level.

In connection with the recommendation that the September 2's not be called, it was understood that in the event these bonds declined in price, pending another meeting of the committee they would not be permitted to go more than 4/32 of a point below par. There was also agreement with Mr. Sproul's suggestion that the prices at which orderly market operations would be conducted in other issues would be determined in the light of market conditions.

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, either in the open market or directly from, to, or 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 to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; provided that the total amount of securities in the account at the close of March 8, 1951, shall not be increased or decreased by more than $1,750 million exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the

Treasury pursuant to paragraph (2) of this direction;

(2) To purchase direct from the Treasury for the System open market account 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 in the account at any one time shall not exceed $750 million.

In taking this action it was understood that the limitations contained in the direction include commitments for purchases and sales of securities for the System account.

Thereupon the meeting adjourned.

Secretary.