

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 Thursday, May 17, 1951, at 2:20 p.m.

PRESENT: Mr. Martin, Chairman  
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. R. F. Leach, Economist, Division of Research and Statistics, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee held on January 31, February 8, 14, and 26, March 2, 3, 8, and 13, and April 5, 1951, were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account as reported to the members of the committee for the period May 8 to May 16, 1951, inclusive, were approved, ratified, and confirmed.

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In response to a question from Chairman Martin, Mr. Rouse suggested that the limitation in the first paragraph of the direction to be issued by the executive committee to the Federal Reserve Bank of New York to execute transactions in the System account be reduced from the present figure of \$1,750 million to \$1 billion.

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, 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 this date shall not be increased or decreased by more than \$1 billion 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.

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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.

In connection with the approval of the foregoing general direction, Chairman Martin referred to the discussion at the meeting of the full Committee this morning and to the understanding at that meeting that the executive committee should arrange for more aggressive operations in the System account with a view to bringing out any potential demand for Government securities.

Mr. Sproul stated that he felt he and Mr. Rouse understood the purpose of the suggestion for more aggressive operations, that the intent was to try to bring some upward strength in the market for Government securities and to create a general atmosphere of confidence. He added that this would be a testing and probing operation which, if successful, could lead to a reduction in our purchases, but that if it did not seem to be working in that direction the policy could be re-examined by the committee. Mr. Sproul also said that it might be hoped that later in the year the System account would be relieved of any need for carrying on support operations in the long-term market, if incomes and savings increased and brought a greater demand for such Government securities. Mr. Sproul went on to say that while he doubted that the proposed operation could create greater confidence in the Government securities market while the fundamental savings investment

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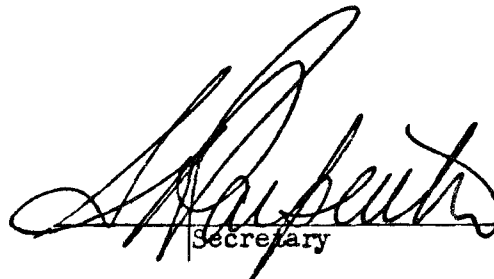
factors were generally known to be adverse he was not opposed to trying it on an experimental basis.

It was the consensus that although the proposed more aggressive operation would result in putting additional reserve funds in the market temporarily at least, the period of a tight money market immediately ahead which would require some addition of reserve funds in any event, offered an appropriate opportunity for carrying on operations along the lines discussed at this meeting and at the meeting of the full Committee earlier today, and it was agreed that the New York Bank should conduct operations for the System account in the light of these discussions.

Question was raised whether it might be desirable to offset long-term securities purchased in accordance with the agreement referred to above by the sale of short-terms from the System account and Mr. Rouse outlined reasons why he thought that would not be possible.

It was understood that the next meeting of the executive committee would be subject to call by the Chairman.

Thereupon the meeting adjourned.

  
Secretary