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, August 27, 1951, at 10:10 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Williams
Mr. Evans (alternate member)
Mr. Leedy (alternate for Mr. Sproul)

Mr. Carpenter, Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Thurston, Assistant to the Board of Governors
Mr. Garfield, Adviser on Economic Research, 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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on August 8, 1951, were approved.

Before this meeting there had been sent to each of the members of the executive committee a copy of a report of open market operations prepared at the Federal Reserve Bank of New York covering commitments executed from August 8 to August 22, 1951, inclusive. Following a reference to that report, Mr. Thomas commented on the money market situation and on market prospects over the next two or three months stating that it appeared that the market would continue to be under pressure from an increasing need for reserve funds throughout that period.

During Mr. Thomas' statement, Mr. Szymczak, a member of the executive committee, and Mr. Rouse, Manager of the System Open Market Account, joined the meeting.

Just prior to the meeting there was distributed to each member of the committee a copy of a supplementary report prepared at the Federal Reserve Bank of New York covering open market operations on August 23 and 24, 1951. Mr. Rouse stated that he had nothing to add to the two reports referred to above or to the comments made by Mr. Thomas other than to say that since the meeting of the executive committee on August 8 some optimism had been developing in industries such as textiles that have recently been depressed and that greater tensions had developed in the international situation which might complicate the problem of open market operations.

> 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 August 8 to August 26, 1951, inclusive, were approved, ratified, and confirmed.

Chairman Martin referred to the agreement reached at the last meeting of the executive committee that a recommendation would be made to the Treasury toward the end of this month only with respect to refunding the 3 per cent bonds maturing on September 15 and the 1-1/4 per cent notes maturing on October 1, and that a recommendation would be made at a later date with respect to refunding the notes maturing on October 15 and November 1 of this year. There was a brief discussion of whether such a procedure was still desirable or whether some other combination of issues for refunding maturities during the remainder of this year would be preferable. It was the consensus that the decision reached at the meeting on August 8 should be adhered to.

Chairman Martin stated that it was important that any recommendation that the executive committee might make to the Treasury be not discussed with any unauthorized person so that there would be no possibility of a "leak" of the committee's recommendations before the announcement of the terms of the refunding by the Treasury.

Chairman Martin then stated that it would appear that the market was pivoting on the 1-7/8 per cent rate and that it would be a mistake to consider changing that rate. In that situation, he said, the problem before the committee was the maturity of the refunding security to be recommended. Having in mind the desirability of adhering to quarterly maturity dates and providing an adequate incentive for corporations to refund their holdings of the maturing issues, he thought that a 9-1/2 months' certificate was indicated. He made the further statement that one of the objections to such a maturity was that it might be interpreted as an increase in the short-term rate. It was his view, however, that as long as the committee continued to feel that quarterly maturity dates were desirable the 9-1/2 months' maturity was the best that could be worked out.

In connection with a discussion of the desirability of maintaining quarterly maturity dates, Mr. Thomas stated that generally the fall of the year was a period of tighter money conditions and that if a pattern of monthly maturities were followed there would be little opportunity for flexibility in open market operations. For that reason, he said, if the Treasury also could avoid piling up maturities in the latter half of the year that would be a desirable course to follow.

At the conclusion of the discussion it was agreed that the recommendation would be made to the Treasury at this time that the September 15 and October 1 maturities be refunded into a $2.7 billion issue of 9-1/2 month 1-7/8 per cent certificates maturing on July 1, 1952.

Turning to the problem of new Treasury financing, Chairman Martin stated that it was still not clear how much new money the Treasury would need during the rest of the year and that there was a question whether the committee should consider suggesting to the Treasury that it again increase the weekly offering of Treasury bills. If that course should appear to be desirable, he said, the recommendation might be made that there be further increases in the weekly issues of September 13, September 20, and September 27 inasmuch as the outstanding bills maturing on each of those dates amounted to only $1 billion. The other members of the committee agreed with this suggestion.

The problem of new Treasury financing was discussed in the light of the indicated Treasury cash position over the next six months and the extent to which the situation would be affected by the forthcoming savings bond campaign and the pending tax bill. Reference was also made to the desirability of recommending that consideration be given to a tax anticipation note along the lines suggested by Mr. Sproul at the last meeting of the executive committee. No conclusions were reached on this point, however, and Chairman Martin suggested that each of the members of the committee give further consideration to the problem of new financing so that the committee could be in a position to make definite recommendations at its next meeting.

In a further discussion it was agreed unanimously that the recommendation to the Treasury with respect to Treasury financing as agreed upon at this meeting would be transmitted informally by Chairman Martin to the Secretary of the Treasury and that no written communication would be sent.

Mr. Williams stated that the question had been raised in his district with respect to the Federal Reserve Bank paying the cost of a dinner to a small group of savings bond workers and that, in the light of the discussions of this matter at previous meetings of the Presidents' Conference and of the Presidents and the Board of Governors, his Bank had agreed to pay the cost of the dinner. In that connection, it was stated that Mr. Young, President of the Federal Reserve Bank of Chicago, had said in a recent telephone conversation that a request had been received by his Bank to pay the cost of a dinner for a group of savings bond workers in the Chicago area and that he had concluded that the Bank should pay the expense. Reference was also made to the action of the Board of Governors in agreeing to pay the cost of luncheons and a dinner for those attending the recent meetings of national groups of savings bond workers in Washington in connection with plans for the forthcoming savings bond campaign.

Chairman Martin stated that he had expressed the view to the Treasury that it should request the Congress to appropriate the funds necessary to enable the Treasury to carry out an effective program for the sale of savings bonds, but that since funds would not be available in connection with the forthcoming savings bond drive the System should cooperate in making the drive as successful as possible.

During a discussion of possible changes in the terms of savings bonds, reference was made to the study being made by the staff of the savings bond program and it was suggested that it would be helpful if that study could be available at the time of the meeting of the Federal Open Market Committee in October.

Chairman Martin stated that in accordance with the suggestion made at the meeting of the executive committee on June 27, 1951, he had asked Mr. Norton to give consideration to the problem of techniques that might be proposed to the Treasury for use in selling savings bonds.

In a discussion of open market operations during the period before the next meeting of the committee, it was agreed unanimously that no change should be made in the understanding at the meeting on August 8 that, on the basis of the present policy of neutrality, the bill rate should not be permitted to increase to a point where it would affect adversely the 1-7/8 per cent rate on the two outstanding issues of Treasury certificates. It was also agreed that no change should be made in the understanding reached at the meeting of the committee on June 27 that the Federal Reserve Bank of New York would not permit the price of the longest-term restricted Treasury bonds to decline below 96-3/4.

It was the view of the members of the committee that no change should be made in the existing direction to the Federal Reserve Bank of New York to execute transactions in the System account.

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.

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.

It was agreed that the next meeting of the committee should be subject to call by the Chairman having in mind the timing of the Treasury's next refunding and that the Presidents of the Federal Reserve Banks would be in St. Louis for the meeting of the Presidents' Conference on September 27-29 and in Chicago for the annual convention of the American Bankers Association on September 30-October 2.

Thereupon the meeting adjourned.

S R Carpenter

Secretary.