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, February 11, 1952, at 2:00 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. Williams
Mr. Evans (alternate member)

Mr. Carpenter, Secretary
Mr. Thomas, Economist
Mr. Vest, General Counsel
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. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on November 13 and 14, 1951, were approved.

Before this meeting, there were sent to the members of the executive committee copies of a report prepared at the Federal Reserve Bank of New York of open market operations during the period November 14, 1951 to February 6, 1952, inclusive. The members of the committee had also been furnished copies of a supplemental report prepared at the New York Bank covering operations on February 7 and 8, 1952. Mr. Rouse commented briefly on the reports and, in response to an inquiry from Mr. Evans, on the situation in the long-term market. Copies of the two reports have been placed in the files of the Federal Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period November 13, 1951 to February 8, 1952, inclusive, were approved, ratified, and confirmed.

At the meeting of the executive committee on November 13, 1951, it was agreed that material should be prepared which would provide answers to questions which might be raised during the forthcoming hearings before the Patman Subcommittee with respect to profits of United States Government securities dealers who were qualified to do business with the Federal Reserve Banks for the System open market account. In response to that agreement, Mr. Rouse prepared a memorandum under date of January 23, 1952, relating to the basis upon which commissions had been paid to Government security dealers on transactions for the System account and the aggregate amounts paid to the dealers during the past four calendar years. A tabulation attached to the memorandum indicated that during the years 1948 to 1951, inclusive, dealers had been paid commissions in the total amount of approximately $6.8 million on total purchases and sales for System account in the same period of almost $95 billion. In a brief discussion of the commissions being paid on System transactions at the present time, Mr. Rouse stated that the existing authority to the New York Bank with respect to such payments was entirely adequate but that if the System should move into a period where large sales of bonds became desirable, he would want to recommend that the executive committee authorize some increase in commissions.

> At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, it was agreed that copies of the memorandum should be sent to the Presidents of all Federal Reserve Banks for their information and for such discussion at the next meeting of the Federal Open Market Committee as appeared to be desirable.

Mr. Thomas then presented a statement of the current economic situation and the outlook for the months ahead. He indicated that the current estimates of the forthcoming defense expenditures, calling for an increase of about $20 billion in the next year over the present annual rate, together with a continued large volume of business capital expenditures, could be attained with little or no decrease in private expenditures, except for construction. Inflation, therefore, might be avoided if consumers maintain the recent high level of personal savings.

He also commented on possible Treasury cash requirements for that period, stating that the preliminary estimates made by the staff indicated that there would be no need for new funds during the first half of the year, that the Treasury would have to borrow funds in the aggregate amount of approximately $13 billion during the last half of 1952, but that for the calendar year as a whole the net increase in the debt would be approximately $6 billion and for the fiscal year 1953 the increase would amount to approximately $8.5 billion. It is likely that these estimates, although below those of the President's budget, may still be larger than will actually be experienced.

He added that the types of securities to be offered by the Treasury should be aimed at attracting available funds outside of the banking system. An analysis was being prepared (which would be available for the forthcoming meeting of the Open Market Committee) which would give information on the funds that might be available for investment in Government securities in this period. It appeared from preliminary estimates, he said, that business capital expenditures would be larger in 1952 than in 1951 and that net new capital issues might run as high as $6.8 or $7 billion, that the increase in the dollar volume of mortgages outstanding might be approximately $2.5 billion less in 1952 than in 1951, that State and local governments would borrow somewhat less in 1952 than in 1951, and that business short-term borrowing on balance should be smaller in 1952 than in the previous year. He thought consumer credit would increase very little, if at all.

Mr. Thomas made the further statement that the sources of funds included large amounts of personal savings, that some of these funds would go into other uses, but that a revision of the savings bond program might attract more of these directly into Government securities. Of the total amount of institutional funds of around $10 billion, $5 billion might be expected to go into corporate securities and $5 billion into mortgages, and, while insurance companies and savings banks might continue to sell Government securities, other institutional investors would be buying them on balance, and net sales by these groups all together should be very small.

The question was whether more of these funds could be attracted into Government securities and away from other investments by appropriate offerings of securities, possibly with some advance commitments. It was thought, Mr. Thomas said, that the commercial banks might have to buy some Government securities, but that the amount of bank purchases might be small or might be avoided altogether.

In accordance with the action taken at the meeting of the Federal Open Market Committee on November 14, 1951, the Research Committee on Government Finance had prepared a memorandum on the subject of Government financing in 1952 which had been sent to the members of the executive committee with a memorandum dated January 29, 1952, from Mr. Thomas. The Research Committee memorandum included a discussion of (1) the type of tax anticipation securities that might be offered to attract the large corporate accruals expected to develop next fall as a result of the Mills plan, (2) the task of refunding securities maturing in 1952 with particular reference to the first half of the year, (3) further suggestions regarding the savings bond program, and (4) means of attracting funds of institutional investors including techniques for encouraging advance commitments or allocations of expected funds to Treasury securities and the types of long-term securities that might be offered. Copies of the memorandum had been distributed to the members of the executive committee and the discussion of Treasury financing at this meeting was in the light of the information contained in the memorandum.

Chairman Martin commented on the problem of Treasury financing in the months ahead in the light of (1) the refunding of approximately $30 billion of maturing securities, (2) the new money needs of the Treasury, and (3) the $24 billion of issues which are callable this year.

In this connection, he raised the question whether the two issues of 2 per cent bonds and the one issue of 2-1/4 per cent bonds which were callable in June 1952 should be called, and stated that if the issues were to be called public notice would have to be given by the 15th of this month.

It was the unanimous view of the members of the committee that the three issues should not be called.

In commenting on this point, Mr. Sproul stated that it appeared that the economy would continue to move sidewise for some months ahead, and that there would be no material change in the need for bank reserves in that period, which would indicate that credit policy should be designed to keep a check on reserves without either easing or tightening the credit situation. He said that action could be taken to absorb any reserves that might tend to accumulate, that it was to be hoped that individual banks would adjust their reserves by borrowing rather than by sale and purchase of Government securities, and that open market operations should be used to maintain orderly conditions and to relieve excessive strain in periods of sharp market movements. He added that the last half of the year, when inflationary pressures might be renewed and the Treasury would be borrowing in the market, might be a particularly difficult time and that every effort should be made to attract into Government securities the large savings accumulations that appeared to be likely and thus avoid bank financing of the debt as much as possible.

It was his view also that the exchange offering in the forthcoming financing should include an intermediate issue in the range beyond 5 years, that maturities of new issues of short-term Government securities should be consolidated wherever possible, that the Federal Open Market Committee should press for a revamping of the savings bond program, and that financing during the second half of 1952 should include an issue of bonds with a maturity of 30 years or more which would be competitive with other securities in attracting available funds.

In the circumstances, it was his suggestion that the Treasury offer, in exchange for the $1.0 billion of 2-1/2 per cent bonds called for redemption on March 15, an intermediate issue which might be in the 6-7 year range with a coupon of 2-3/8 per cent or in the 8-9 year range with a coupon of 2-1/2 per cent. He did not believe that adequate preparation had been made to permit the use of a long-term issue at this time. An intermediate security, he said, would involve little risk to the Treasury because the amount of the refunding was small, and would have the advantage of anticipating the availability for bank purchase of issues which would become eligible beginning next May and for which there may be a fairly strong bank demand in the absence of other offerings. While the market was still concerned about higher rates and might feel that a better opportunity was to be found in bonds that shortly would become eligible for bank purchase, he felt that a step in the direction of lengthening the maturity of the debt at this time would involve a minimum of risk with maximum advantage both from the standpoint of debt management and credit policy, and that if that risk were not taken the problem of financing would become more and more difficult. With respect to the $9.5 billion of certificates maturing on April 1, it was Mr. Sproul's view that they should be refunded with a new certificate and that it would not be wise to include an intermediate issue in the exchange offering.

There was a discussion of the rate at which an intermediate issue should be offered during which Chairman Martin outlined the tentative views concerning the approaching financing which the Secretary of the Treasury had expressed to him in recent conversations.

Various possibilities for the March 15 and April 1 refunding were mentioned including a single issue of certificates. The opinion was expressed that if an intermediate bond were included in the offering for the April 1 certificates it would be necessary to limit the amount of certificates that could be exchanged into the new bond so that the success of the offering would not be endangered by uncertainty as to the amount of the new bond that would be outstanding.

It was agreed that there might be an advantage in doing the March 15 and April 1 refunding as of March 1. It was also felt, however, because of the need for reducing the volume of outstanding short-term debt and because of the interpretation which would be placed upon such a course by the market, that it would not be desirable to combine the March 15 and April 1 refunding into a single certificate. Chairman Martin raised the question how important it was to press the Treasury to consider an offering of an intermediate bond in exchange for the March 15 maturity. It was the consensus of the members of the committee that it was important to begin to move some of the existing short-term debt into longer maturities, that the March 15 maturity would provide an opportunity to make that beginning with little risk, and that this point should be stressed in conversations with the Treasury.

After a further discussion of the coupon rate which an intermediate issue should carry, in exchange for the March 15 bonds, it was suggested that a 6-year bond might be offered at 2-3/8 per cent and, if there were question whether that rate would be adequate, an alternative course would be a 6-8 year bond at 2-1/2 per cent rate. A further suggestion was made that, in order to afford the market an opportunity to adjust to the new offering, a preliminary announcement be made to be followed later by a definitive announcement in which the maturity and coupon rate on the new issue would be given.

At the conclusion of the discussion, it was agreed that a draft of letter to the Secretary of the Treasury be prepared which would incorporate in general terms the above suggestions for an intermediate Treasury bond and which would also suggest that the April 1 certificates be refunded into a new certificate issue.

Chairman Martin referred to the very difficult problems of Treasury financing that would be faced later in the year and in the ensuing discussion it was agreed that a copy of the memorandum prepared by the System Research Committee on Government Finance should be sent to the other members of the Federal Open Market Committee and the Presidents of the Federal Reserve Banks who were not members of the Committee and that the whole problem of financing during the remainder of the calendar year should be considered at the meetings of the Federal Open Market Committee to be held on February 29 and March 1, 1952.

Mr. Young stated that the Division of Research and Statistics of the Board of Governors had prepared a memorandum on the sources and uses of funds of life insurance companies and that the memorandum might be helpful in the discussions of the Federal Open Market Committee. It was agreed unanimously that a copy of the memorandum should be sent to all members of the Federal Open Market Committee and to the Presidents of Federal Reserve Banks who were not members of the Committee for their information in connection with the discussion at the forthcoming meetings.

The suggestion was also made that if the Treasury were agreeable it might be desirable for it to call in representatives of life insurance companies for the purpose of discussing with them the problem of forward commitment of their funds.

Chairman Martin raised the question whether a copy of the memorandum prepared by the Research Committee on Government Finance to which reference was made earlier in this meeting should be sent to the Treasury, and it was agreed unanimously that a copy should be sent with the statement that it was a preliminary memorandum on which the members of the Federal Open Market Committee had reached no conclusions but would be discussed at a meeting of the Committee later this month.

There was unanimous agreement that the general direction issued to the Federal Reserve Bank of New York at the last meeting of the executive committee should be renewed without change.

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 unanimously that there should be no change in the understanding reached at the meeting of the executive committee on November 14 that in carrying out operations for the System account, pursuant to the direction set forth above, the Federal Reserve Bank of New York should be guided by the understanding that operations in both short-term and long-term securities were to be conducted for the purpose of maintaining an orderly market and that the points previously fixed below which long- and short-term issues would not be allowed to decline had been abandoned.

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

Thereupon the meeting adjourned.

S R Carpenter

Secretary.