A meeting 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, June 19, 1952, at 10:20 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Bryan
Mr. Earhart
Mr. Evans
Mr. Hugh Leach
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman
Mr. C. S. Young

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Wheeler and Ralph A. Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Ralph F. Leach, Economist, Division of Research and Statistics, Board of Governors
Mr. Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York
Mr. Craft, Technical Consultant

Messrs. Erickson, Gidney, and Johns, alternate members of the Federal Open Market Committee

Messrs. Williams, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Philadelphia, Kansas City, and Dallas, respectively

Mr. Clark, First Vice President of the Federal Reserve Bank of Atlanta

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee on February 29 and March 1, 1952, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee held on March 1, April 4, April 21, May 9, and May 23, 1952, were approved, ratified, and confirmed.

Before this meeting there had been sent to all members of the Committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period February 29, 1952 to June 13, 1952, inclusive. At this meeting, Mr. Rouse presented and commented briefly on a supplementary report covering commitments executed on June 16, 17, and 18, 1952. Copies of both 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 account for the period February 29 to June 18, 1952, inclusive, were approved, ratified, and confirmed.

Chairman Martin referred to a recommendation of the executive committee adopted at its meeting on April 21, 1952 and transmitted to all members of the Committee under date of May 7, 1952, that the Federal Open Market Committee authorize the executive committee to issue a continuing formal authorization to the Federal Reserve Banks to purchase special certificates of indebteness direct from the Treasury, from other Federal Reserve Banks, or from the System open market account when such purchases would facilitate the handling of the Treasury balances on Saturdays or holidays when the Federal Reserve Bank of New York is closed and another Federal Reserve Bank is open. The reasons for the recommendation were set out in the minutes of the meetings of the executive committee on April 4 and April 21, 1952, as well as in a memorandum from Mr. Rouse dated April 17, 1952, copies of which had been sent to each member of the Committee before this meeting.

During a discussion of the recommendation, Mr. Rouse suggested that if the authorization were given it be made clear that it would apply when the Federal Reserve Bank of New York was closed and any other Reserve Bank or branch was open.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the Committee authorized each Federal Reserve Bank, during such period as the executive committee of the Federal Open Market Committee may permit, to purchase special certificates of indebtedness of the United States, under arrangements made with the Federal Reserve Bank of New York, directly from the Treasury, from another Federal Reserve Bank, or from the System open market account, when such purchases will facilitate the handling of the Treasury's balances on Saturdays or holidays when the Federal Reserve Bank of New York is closed and another Federal Reserve Bank or branch is open; provided that the amount of such special certificates held by all of the Federal Reserve Banks for their own account as a result of such purchases,

> together with the amount of such special certificates purchased directly from the Treasury and held in the System open market account, shall not exceed at any one time the total amount of such special certificates authorized to be held under the then current authorization of the executive committee to the Federal Reserve Bank of New York for the System account.

Chairman Martin then referred to recommendations of the executive committee adopted at its meeting on April 21, 1952 regarding bankers' acceptances, a copy of which was sent to each member of the Committee on May 7, 1952. The recommendations included the proposal that section 8 of the Regulation of the Federal Open Market Committee be amended to read as follows:

> "SECTION 8. OTHER OPEN MARKET OPERATIONS
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> "Subject to directions of the Committee and the following conditions, each Federal Reserve bank may engage in open-market operations other than the purchase or sale of Government securities:
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> "(1) Each Federal Reserve bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.
>
> "(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased: Provided, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve bank except in accordance with directions of the Committee.
>
> "(3) Only bills, notes, revenue bonds, and warrants of States, counties, districts, political subdivisions, or municipalities which are of the kinds made eligible for purchase under the provisions of Regulation E of the Board of Governors of the Federal Reserve System may be purchased.
>
> "(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee."

The executive committee also recommended that:

"A. Each Federal Reserve Bank be authorized to purchase prime eligible bankers' acceptances in the open market from banks and financially responsible experienced dealers and to hold such acceptances in its own portfolio.

"B. The minimum buying rate on such prime eligible bankers' acceptances shall be fixed by the Federal Open Market Committee at this time at 1-3/4 per cent, subject to change from time to time by the Committee in order to carry out its policies.

"C. The effective rates at which a Federal Reserve Bank may purchase bankers' acceptances shall be not less than the minimum buying rate and shall be specified from time to time by the manager of the System Open Market Account in the light of market conditions and developments and in accordance with any directives or limitations prescribed by the full Committee or the executive committee for the purpose of carrying out the current policies of the Federal Open Market Committee. Any change in the effective buying rates on bankers' acceptances shall be promptly reported by the Manager of the Account to the Federal Open Market Committee."

At Chairman Martin's request, Mr. Vest reviewed the reasons for the proposed amendment to the regulation and for the other recommendations made by the executive committee concerning purchases of prime eligible bankers' acceptances and setting of rates on such acceptances.

Upon motion duly made and seconded, and by unanimous vote, the recommendations of the executive committee as set forth above were approved.

Mr. Craft reported on the ad hoc committee study of the scope and adequacy of the Government securities market, stating that satisfactory progress was being made and that during the discussions with securities dealers that had been taking place since June 9 there had been a fairly consistent pattern of comments developed on the basis of the detailed outline which had been prepared by the subcommittee for the express purpose of securing comments from dealers in Government securities. Mr. Craft added that the subcommittee was considering the possibility of preparing an appropriate type of outline to be sent to some of the larger investor groups such as insurance companies, savings banks, and State funds, with the thought that their comments could be obtained largely by mail rather than by asking that individuals come to Washington for discussions.

Mr. Vardaman raised the question whether copies of statements made by securities dealers during discussions with the subcommittee might be made available to all Committee members from week to week, and Chairman Martin commented that it was contemplated that a report would be submitted to all members of the Committee as promptly as possible, that it did not seem feasible to prepare interim reports, and that he expected the subcommittee would not be in a position to submit a written report until sometime in September which would mean about 90 days from the time the study commenced.

At this point members of the staff of the Board's Division of Research and Statistics and Division of International Finance entered the room and there was presented a review of the economic situation and credit outlook, illustrated by chart slides.

In concluding this review, Mr. Thomas pointed out the implications for Federal Reserve policy indicated by recent and prospective economic developments. He indicated that there are favorable prospects for continuation of an economic situation of approximate balance at a high level of activity but the maintenance of such a balance may require even greater reliance on general monetary restraints, particularly in view of the relaxation of selective and voluntary measures. Prospects for the second half of 1952 are for substantial cash borrowing by the Treasury while private credit demands may be only slightly less than last year even with relatively stable prices. Although savings and the accumulation of liquid funds may continue large, it will be necessary for the Treasury to adopt vigorous measures to attract available funds into Government securities and for the Federal Reserve to restrict the availability of bank reserves, if undue expansion of bank credit is to be avoided. The intermediate financing in process and subsequent offerings of tax anticipation bills, together with moderately favorable results from the new savings bonds, may be adequate to meet the Treasury's needs. Increased reserve needs might be adequately supplied through member bank borrowing and repurchase agreements with dealers, with a minimum of direct purchases of securities by the System. This would mean the continuation of tight money markets. If credit demands tend to become excessive, an increase in the discount rate might be appropriate.

Following the economic review, Chairman Martin reported briefly on preliminary information he had received concerning the response to the cash offering of 2-3/8 per cent Treasury bonds of 1958, on which the books were opened for subscription on Monday, June 16. He stated that it appeared that the offering had been oversubscribed more than three times, that subscriptions from nonbank investors apparently exceeded the amount of the offering of $3,500,000,000, and that the total allotment would have to be expanded in order to provide any minimum allotment to commercial banks.

There followed a general discussion of the Treasury financing, during which Mr. Evans called the Committee's attention to the fact that since the war the Federal Open Market Committee has had several objectives in mind:

1. To refinance the public debt so that a larger proportion would be in long-term securities in the hands of nonbank investors.
2. To prevent further accumulation of Government securities by banks.
3. To reduce bank loans in order to retard inflation.

Mr. Evans pointed out that these objectives have not been attained.

Up to the present time the refinancing of the debt with long-term securities has not been effectively attempted and the average maturity of the public debt has shortened. Banks have increased their loan portfolios to an all-time high. Commercial banks are once more interested in purchasing Government securities and they are available to them.

Mr. Evans suggested that the Committee give careful thought to its statutory responsibilities and conduct its open market operations in such a way as to prevent the further deterioration of the purchasing power of the dollar. The immediate policy question to be raised is how much bank credit expansion--and, specifically, how much Reserve Bank credit expansion--can we really afford to tolerate this year?

Turning to open market operations, Chairman Martin raised the question whether there should be any change in the Committee's existing policy of neutrality, under which market forces of supply and demand are permitted to have their effect with a minimum of System intervention except to the extent necessary to promote orderly market conditions.

Mr. Sproul then commented briefly as follows:

> The reception accorded the cash offering of new 2-3/8 per cent five-year Treasury bonds reflects fever rather than health in the patient. There appear to be two primary dangers in the current situation. The first of these is the confirmation of opinion held by some at the Treasury that there is no such thing as market determination of prices and yields on Government securities and that the Treasury and the Federal Reserve System can and should make the market. In that view, Treasury borrowing becomes a simple, crude process of deposit creation by the banking system closely akin to printing money. The second danger is the risk that the market will assume as it has, and be confirmed in its assumption that the Treasury and the Federal Reserve System are reverting to the wartime practice of giving reserves to commercial banks in amounts necessary to make each Treasury financing a complete success and to assure an advance in the price of each new issue subsequent to its offering, if not facilitating repeated offerings at rising prices. The large subscription response to the new 2-3/8 per cent bonds of 1958 means little regarding the true needs and the true resources of the subscribers. Commercial banks have a definite interest in the new bonds but lack the reserves (apart from their creation by the Federal Reserve System) to fill their needs. For the most part, the response from nonbank investors represents "free riding" undertaken largely in the hope of selling the issue profitably at an early date without risk of price depreciation. The current economic and

market situation suggests the wisdom of keeping a close check rein on credit without committing the System to a policy which would suggest that it was concerned either with the development of inflation or deflation at this time. In terms of open market operations that would mean allowing the market to adjust itself with a minimum of positive assistance from the System open market account while, at the same time, encouraging commercial banks to meet reserve needs through rediscounting rather than extending direct aid to them through open market transactions. A collateral result would be to eliminate some of the profit from "free riding" operations by speculative subscribers to the 2-3/8 per cent bonds. It appears that many investors must relearn the meaning of a free market. It would seem wisest to reaffirm the current policy of neutrality and to continue efforts to encourage the banks to seek reserves through the discount window.

Chairman Martin suggested that in the absence of objection the Committee reaffirm its existing policy, and none of the members of the Committee indicated disagreement with this suggestion.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously with the understanding (1) that the limitation contained in the direction would include commitments for the System open market account; and (2) that if the authority contained in Section 14(b) of the Federal Reserve Act to purchase securities directly from the Treasury were not extended beyond June 30, 1952, the authority given in the second paragraph of the direction would terminate on that date:

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 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 aggregate amount of securities held in 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 $2,000,000,000.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury 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 in the account at any one time shall not exceed $2,000,000,000.

It was agreed that the next meeting of the Committee tentatively should be scheduled to be held some time during the week commencing September 22, 1952.

Mr. Sproul stated that in view of the fact that John H. Williams, Economic Adviser to the Federal Reserve Bank of New York and presently an associate economist of the Committee, would retire from active service effective June 30, 1952, continuing only as a consultant at the New York Bank, he (Mr. Sproul) would recommend that Harold V. Roelse, Vice President of the Federal Reserve Bank of New York, be elected an associate economist of the Federal Open Market Committee effective July 1, 1952 to succeed Mr. Williams.

Thereupon, upon motion duly made and seconded and by unanimous vote, Mr. Roelse was elected an associate economist, to serve until the selection of his successor at the first meeting of the Committee after February

28, 1953, with the understanding that in the event of the discontinuance of his official connection with the Federal Reserve Bank of New York he would cease to have any official connection with the Federal Open Market Committee.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary.