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 Wednesday, October 8, 1952, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Hugh Leach
Mr. Mills, Alternate
Mr. Vardaman
Mr. C. S. Young, Alternate for Mr. Sproul

Messrs. Evans and Robertson, Members of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. R. F. Leach, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Willis, Assistant Secretary, Federal Reserve Bank of New York
Mr. Solomon, Assistant General Counsel, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held in Washington on September 15, 1952 were approved.

Before this meeting there had been sent to the members of the committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period September 25 to October 3, 1952, inclusive. At this time Mr. Rouse presented a supplementary report covering the period from October 3 through October 7, 1952, commenting that there were no market transactions in United States Government securities during the period covered by the supplementary report and that, accordingly, the System's holdings at the close of business October 7 remained at $23,662,562,000 the same as at the close of business October 3.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period September 25 to October 7, 1952, inclusive, were approved, ratified, and confirmed.

In response to a question from Chairman Martin, Mr. Rouse stated that pursuant to the actions of the Federal Open Market Committee and the executive committee on September 25, necessary arrangements had been made whereby special Treasury certificates of indebtedness, when issued, would be purchased direct from the Treasury by the Federal Reserve Bank of New York for its own account or, in cases where that seemed desirable, with the understanding that participations could be issued to any other Federal Reserve Bank. Mr. Rouse added that no special certificates had been issued since September 25. He also said that some modification of the instructions issued pursuant to the action of the Federal Open Market Committee on June 19, 1952 concerning the handling of special Treasury certificates of indebtedness would seem desirable, that there was no urgency about the change he had in mind, and that when he had had an opportunity to discuss the matter with Mr. Vest, General Counsel, who was now on vacation, he would expect to submit a specific recommendation to the committee.

Chairman Martin referred to a memorandum prepared in the Division of Research and Statistics of the Board of Governors under date of October 7, 1952 with respect to economic developments since September 25, copies of which had been distributed before this meeting. The memorandum stated that developments in the past two weeks had been generally in line with the pattern projected at the last meeting of the Federal Open Market Committee, that business activity may be expected to remain strong over the next several months within a general framework of approximate price stability, that bank reserve positions were somewhat tighter in the two weeks ending October 1 than had been projected on September 25 due primarily to the fact that the Treasury balance at the Reserve Banks was rebuilt more rapidly than had been expected, and that in the period immediately ahead bank reserve needs would increase sharply. The memorandum also stated that if borrowings were kept to around $1 billion, open market purchases of around $200 million, either through repurchase contracts with dealers or on an outright basis, would be required within the next week, and that additional purchases would be needed in the last week of October and the first half of November, reaching a maximum of about $750 million when the final batch of tax bills has been issued.

At the Chairman's request, Mr. Thomas commented briefly on the memorandum stating that the situation had tightened earlier than had been expected and that this tightening had been reflected in a rise in the rate on Treasury bills to around 1.85. Payments for tax anticipation bills and accompanying increases in required reserves would take place later this week, Mr. Thomas said, and he estimated that after this week discounts would be above

$1 billion unless there were open market purchases, and that by the latter part of October they might approach $1.5 billion. On the basis of these projections, Mr. Thomas said, it was thought that, in order to avoid undue tightening and without causing any undue easing of the money market, the committee might wish to authorize additional purchases, either outright or through repurchase agreements, during the course of the next month which would total perhaps as much as 1/2 billion dollars. Mr. Thomas also pointed out that the figures of probable needs given in the memorandum and cited by himself were at best approximations and were subject to considerable variation because of differences in timing of the demands, although he felt that they were likely to be representative of what would happen over a period of several weeks, assuming seasonal credit and currency demands.

There followed a general discussion of expansion in loan demand thus far this fall during which it was noted that about the usual seasonal increase had occurred and that there was now considerable feeling that loan demand in the course of the next several weeks would not rise as much as previously had been expected. There was also a discussion of the continued large volume of new corporate issues. With respect to these issues, Mr. Riefler expressed the view that they represented more largely than usual a program on the part of corporations for rebuilding working capital rather than for additional plant expansion. During the discussion, it was also stated that as a result of substantial accumulations of depreciation reserves and funds for payment of corporate taxes, as well as receipt by corporations of funds from long-term financing which were not yet needed, it appeared that corporations would be in the market as purchasers of short-term Government securities between now and the end of this year.

Chairman Martin suggested that the discussion at this meeting be related to the amount of funds which the Committee might wish to put into the market in the immediate future and, if such funds were to be put in, when and how they should be supplied. He then called upon Mr. Rouse who made a statement substantially as follows:

> "You can not tell how this will work out. You are having an absorption of short-term paper primarily by business corporations representing an investment of depreciation and tax reserves. This is high lighted by special transactions such as the investment of the proceeds of International Harvester's recent loan which went into bills. We have seen quite an absorption of tax anticipation bills in the first few days since they were issued, which contrasts with the experience last year where very few of those bills moved from the banks. There will be a fair volume of switching out of short bills to tax bills because 1-7/8 per cent is a very satisfactory return. The volume of additional reserves needed by the market may turn out to be less than has been anticipated as a result of reductions in deposits and in required reserves, but if we get to the point where free reserves are a fairly substantial minus quantity we may have to come in with some open market help. You have to go largely by the market, however, and I would not anticipate that we would want to do anything toward putting in funds before the next meeting of the committee in the week ending October 24. There may be some need for repurchase agreements during this period. I agree in general with the figures Mr. Thomas has presented, but I might want to change them depending somewhat upon the timing."

Chairman Martin suggested and it was agreed that the next meeting of the committee be held at 10:30 a.m. on Wednesday morning, October 22, 1952.

Chairman Martin commented that he felt the principal problem of the committee would be how to take reserves out of the market after the turn of the year when a return flow of currency and a reduction in float would ease the situation substantially. He expressed the view that in anticipation of this situation, it would be highly desirable to build up holdings of bills maturing in January if any purchases for the System account were made during the next few weeks. The Chairman went on to say that, as a general proposition, he felt operations for the System account should be in terms of bills whenever the decision was to supply reserves to the market.

Mr. Rouse stated that use of repurchase agreements would probably be helpful in taking reserves out of the market after the year-end since dealers would want to pay them off as funds became available after the turn of the year; he also favored concentrating any necessary System purchases during the next few weeks in bills, particularly those maturing early in January 1953.

Chairman Martin expressed the hope that the System would not intervene any further in connection with the 2-1/8 per cent Treasury notes offered in the October 1 refinancing, and in a further discussion of the types of securities which might be purchased for the System account there was agreement with the Chairman's suggestion that the objective of the committee should be to confine all transactions in United States Government securities to the short-term area insofar as possible.

With respect to Mr. Thomas' suggestion that the System might find it desirable to purchase as much as 1/2 billion dollars either directly or through repurchase agreements between now and the end of November, Mr. Rouse commented that it would be his feeling that, carrying out the policy of the full Committee as stated in the minutes of the meeting on September 25, 1952, only such reserves should be supplied to the market as were consonant with normal growth in the economy and which would maintain the money flow so that the defense effort and the business community were not unduly hampered.

Chairman Martin reverted to a discussion of the next week or two, stating that on the basis of the best evidence available conditions in the market might get so tight that unless additional reserves were supplied, the objectives of the System's policy of keeping an even flow of money would be impaired. In response to the Chairman's question as to the extent to which dealers would use repurchase agreements, Mr. Rouse expressed the view that dealers would be willing to support moderate positions in short-term Treasury obligations with repurchase agreement accommodation from the Federal Reserve Bank unless, of course, some concern were revived over the likelihood of an increase in the Federal Reserve Bank discount rate.

During the discussion, Mr. Vardaman stated that he could not see that the committee's operations had been sufficiently restrictive, that while he agreed with the general policy statement adopted at the September 25 meeting, he felt the committee was not retarding credit expansion if it stood ready to supply reserves whenever the situation tightened up, and that he would like to see some further tightening.

Chairman Martin responded that he did not agree with Mr. Vardaman, that he felt the situation was going to be tight during the next few weeks, that he did not like to see "knots" in the market, and that he felt the committee should be very careful to avoid having such "knots" develop. He emphasized that this was still a very delicate market and that management of the System open market account required a full understanding of the need for careful handling of operations on a day-to-day basis so as to avoid the development of a situation which might undo what the committee was attempting to accomplish.

During further discussion, Mr. Mills suggested that the committee renew the general instructions to the Federal Reserve Bank of New York in the same form as the direction issued at the meeting on September 25, 1952.

Mr. C. S. Young and Mr. Hugh Leach agreed with Mr. Mill's suggestion, and Mr. Robertson stated that he felt the committee was operating on a definitely restrictive basis, that he was in favor of this operation, but that in his opinion the restrictions had been about as great as they could be without running a distinct risk of unemployment which would be undesirable at this stage.

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 System account (including commitments for the purchase or sale of securities for 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 account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) 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 by the Federal Reserve Banks shall not exceed in the aggregate $1 billion.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary