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, November 5, 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. Bryan, Evans, Robertson, and Szymczak, Members of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Ralph A. Young, Associate 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

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 October 22 to October 31, 1952, inclusive. At this meeting Mr. Rouse presented a supplementary report covering the period October 31 to November 3, 1952, inclusive, and commented briefly on both reports, copies of which 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 October 22 to November 4, 1952, inclusive, were approved, ratified, and confirmed.

A memorandum on economic and financial conditions and prospects prepared by the staff under date of November 5, 1952 had been sent to the members of the committee before this meeting. The memorandum stated that marked upward tendencies were being shown during the current quarter of the year by industrial production, employment, sales of manufacturers and distributors, and personal incomes, that expansive tendencies were general but most evident in civilian industry, and that the combined features of the current situation could contribute to the re-emergence of inflationary tendencies. If, however, the labor supply situation is not actually an obstruction to additional expansion of aggregate physical output, then, with total effective demand increasing at a fairly rapid rate, continued high-level prosperity without inflation could well be experienced over the months ahead.

In commenting upon the memorandum, Mr. Thomas stated that orders for goods appeared to be picking up generally, that department store sales were at a good level, that the labor market was tight with very little unemployment, and that there was an indication of some increase in costs that might result in higher prices. With respect to the credit situation, Mr. Thomas said that it looked as though reserve requirements of banks probably could be taken care of during the remainder of this year through repurchase agreements and temporary borrowing by banks although there might be short periods when some direct purchases of short-term bills by the System account would seem desirable.

In response to a question from Chairman Martin, Mr. C. S. Young stated that loans of commercial banks were not rising as much as had been anticipated a few weeks ago and in some sections the customary seasonal increases would not take place. While a good level of business activity was anticipated through the first quarter of 1953, Mr. Young said there was considerable sentiment that some decline would occur after that, partly because it was anticipated that defense expenditures would decline. Mr. Young also said that banks were in good shape and that as opportunity permitted they were getting rid of longer-term bonds on which they had a loss.

Mr. Hugh Leach stated that since the meeting of the executive committee on October 22 he had reviewed member bank borrowings from the Richmond Federal Reserve Bank. Of 477 member banks, only 66 had borrowed at any time this year to the end of October, and 26 of these had been in debt over 30 per cent of the time. Among these 26, only one fairly clear-cut instance of borrowing for the purpose of avoiding the excess profits tax had been observed although eight other banks which are in the excess profits tax bracket might have borrowed less if they had not been in that tax bracket. Mr. Leach stated that he would ask the member bank which, in his opinion, clearly was borrowing for the purpose of increasing its excess profits tax base to repay its credit, but that he did not feel there was any action called for on his part in the case of banks where it would be difficult to be certain that they were borrowing to evade the tax, especially since he anticipated that those about which there was a question would pay off before the end of this year.

In response to a question from Mr. Vardaman, Mr. Leach said that he did not believe that the Federal Reserve Act intended that a Federal Reserve Bank should make its discount facilities available to member banks for tax avoidance or for obtaining reserves with a view to re-loaning them at a profit.

Mr. C. S. Young stated that a review of the records of member banks borrowing from the Chicago Reserve Bank disclosed only one which was apparently borrowing for the purpose of increasing its excess profits tax base; he felt certain that the discount facilities of the Chicago Reserve Bank were not being abused in that manner at this time.

Mr. R. A. Young stated that he would like to underscore the strength of the current economic situation. While non-inflationary at the moment--i.e., sensitive commodity prices have been declining, bank credit has been expanding only moderately, and there does not seem to be any undue willingness on the part of business enterprises to make commitments for building up inventories--nevertheless, the situation could rapidly become speculative. Such a development would be very difficult to deal with.

In response to a statement by Mr. Evans, Mr. Young agreed that it seemed likely that the volume of consumer instalment credit which was currently at an all-time high would continue to rise between now and the year-end, reflecting strong demand for consumer durable goods.

Mr. Rouse stated that his views on the economic situation were in accord with those expressed by Messrs. Thomas and Young and that in his opinion the situation did not call for a change in open market policy or operations.

Chairman Martin commented that it appeared that the instance cited at the meeting on October 22 in which excess reserves of member banks exceeded for one day the amount of discounts at the Reserve Banks was not indicative of a trend. He then suggested that the direction to the Federal Reserve Bank of New York be renewed at this meeting with the same terms and limitations as the direction issued on October 22.

In this connection, Mr. Vest stated that the wording of the direction issued by the executive committee to the New York Bank as agent for the Federal Open Market Committee was changed slightly pursuant to the understanding at the meeting on October 22, 1952, so that the New York Bank was not authorized to make purchases of securities direct from the Treasury for the System open market account except in the case of exchanges of maturing Treasury securities held by 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 in the open market or, in the case of maturing securities, by direct exchange 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;

(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 at any one time by the Federal Reserve Banks shall not exceed in the aggregate $1 billion.

Mr. Rouse inquired whether the committee should consider making a recommendation to the Treasury in connection with refunding the issue of certificates maturing on December 1, 1952, totaling a little over $1 billion.

Chairman Martin suggested that, in view of the relative smallness of this maturing issue and of the lack of likelihood of attrition being a problem, the refunding should be handled as a debt management decision, it being understood that the new issue would have to stand on its own and that the System would not expect to support the refunding although it might act to minimize fluctuations in the bill market if that seemed desirable. This suggestion was discussed briefly and Chairman Martin was authorized to discuss the refunding with the Secretary of the Treasury along the lines of the foregoing proposal.

It was agreed unanimously that the next meeting of the executive committee would be held at 10:30 a.m. on Tuesday, November 25, 1952.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary