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 Tuesday, December 23, 1952, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Leach
Mr. Mills, Alternate
Mr. Robertson, Alternate

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. 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. Willis, Assistant Secretary, Federal Reserve Bank of New York
Mr. Daane, Monetary Economist, Research Department, Federal Reserve Bank of Richmond

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on December 8, 1952, and a revision on page 12 of the revised draft of the minutes of the November 25, 1952 meeting of the executive committee, 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 December 8 to 18, 1952, inclusive, and at this meeting, Mr. Rouse presented a supplementary report covering the period December 19 to 22, 1952, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

In connection with Mr. Rouse's report, there was a general discussion of a question raised by Mr. Hugh Leach as to the extent to which dealers in United States Government securities were "loaded up" with Treasury bills that they had acquired in recent weeks, but which they had not yet been able to sell on a satisfactory basis. There was also a discussion of the position of dealers, both those recognized for transactions with the open market account and those not so recognized, in so far as funds were necessary in order to carry bills which they had not been able to sell. It was pointed out that the recognized dealers could obtain funds under repurchase agreements from the Federal Reserve Bank at the discount rate, whereas nonrecognized dealers, who did not now have access to the Reserve Banks through repurchase agreements, might have to pay a higher rate of interest on funds borrowed from commercial banks or others.

> Following the discussion, upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period December 8, 1952 to December 22, 1952, inclusive, were approved, ratified, and confirmed.

At Chairman Martin's request, Mr. Thomas commented on two staff memoranda dated December 22, 1952, distributed before this meeting, on Recent Economic and Financial Developments and Recent Money Market Developments and Prospects. In his comments, Mr. Thomas described the recent period as one in which the Federal Reserve System had been trying to deal with a strong seasonal and growth demand for credit through the money market. Government security dealers have been taking on bills and getting money from the System to carry them, thus meeting the demand for funds in a way which is purely temporary. There has been an expectation of a discount rate increase after the turn of the year, Mr. Thomas said, and hence uncertainty as to the prospective rate structure and some hesitancy about holding on to bills acquired during this period, since there was risk of loss in doing so. Mr. Thomas noted that there is pressure on some of the nonrecognized dealers who bought bills heavily earlier and who have not been able to get accommodation for carrying them as cheaply as the recognized dealers. There would be some relaxation of pressure after the turn of the year but substantial ease in the money market could not be anticipated until toward the end of January. Accordingly, there might still be a substantial volume of member bank borrowing from the Reserve Banks until mid-January, and it would not seem that there would be any occasion for the System to act to try to have bills run off or to sell anything in the market during that period unless the ease after the turn of the year came more quickly than now appeared likely. Mr. Thomas felt that it would be well not to have too much pressure in the market; certainly it would be well to have dealers' positions in Treasury bills reduced, and it might be well to defer any increase in the discount rate until at least mid-January and then decide whether it was necessary to take positive restraining action.

Chairman Martin suggested that the problem today was that of discussing how to meet the situation in the market at the year-end so as to prevent "knots" from developing in the market, as had been discussed in earlier meetings of the committee.

In response to a question from the Chairman, Mr. Rouse described the use being made of repurchase agreements, stating that those now being made would mature on January 6. He also commented on the relative costs to dealers of carrying the Treasury bills and of the yields on them, adding that the System had, in effect, encouraged dealers during December to make use of repurchase agreements in order to take or hold a position in the market. At the same time, Mr. Rouse noted, if increased use of the repurchase agreements had not been made, it seemed probable that the System account would have made outright purchases of bills in accordance with the general policy of the Committee during this period.

Mr. Mills felt that the committee should not be influenced by market expectations but he noted that the market was going to look to the System for some relief over the year-end period. He expressed the view that it would be undesirable to encourage member banks to be continuously in debt at the Reserve Banks, adding that, if some relief were not given by the committee, many banks were likely to show indebtedness over the year-end which might confirm the belief of some that it was not particularly objectionable to show indebtedness to the Reserve Bank.

Mr. Szymczak expressed the view that reasonable use of the discount facilities on a temporary basis was not objectionable, and Mr. Mills responded that his concern was that the borrowing might not prove temporary.

During the ensuing discussion, Mr. Youngdahl raised the question as to how dealers might be encouraged to get out of repurchase agreements early in January.

Mr. Rouse responded that this was being pointed up each day as repurchase agreements matured, and that starting today it was contemplated that such agreements would be renewed with a maturity of January 6, rather than running for a full 15-day period.

Mr. Riefler questioned whether it was desirable to have all of the repurchase agreements mature on January 6, whether that was not too soon after the turn of the year, and whether it would not be preferable to continue to renew the repurchase agreements for the full 15-day period for a few days longer. He pointed out that at present there was no outside market for Treasury bills but that there would be an outside market after the turn of the year, unless it is inhibited and no one takes a position in bills at that time. At present, the System is making repurchases freely available and it has made some direct purchases in order to relieve the unqualified dealers' position. Mr. Riefler felt that this should be carried forward until the turn of the year. He doubted whether anything would be gained by indicating a change in the committee's attitude at a time when it was clear that there could not be substantial market buying of Treasury bills.

This question was discussed at some length, Chairman Martin expressing doubt that it would be desirable to pile up the maturities of the repurchase agreements so soon as January 6, since such a procedure might give a danger sign which could be misunderstood in the market.

As a result of this discussion, Mr. Rouse stated that, although he did not attach great importance to this point, it might be desirable to continue to renew the repurchase agreements for the full 15-day period rather than to arrange a January 6 maturity date for all such renewals, and it was understood that this procedure would be followed.

There was some further discussion of possible market developments around the end of the year and shortly thereafter, and of the possible desirability of an increase in the discount rate at the Federal Reserve Banks. At the conclusion of the discussion, Chairman Martin suggested that the general direction to the Federal Reserve Bank of New York be renewed on the same basis as at present, Mr. Rouse stating that there was no reason for changing the limitations in the direction at this time.

> 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.

It was agreed that the next meeting of the executive committee would be held at 10:30 a.m. on Tuesday, January 6, 1953.

Chairman Martin stated that the ad hoc committee studying the Government securities market had completed its report and that copies of the report had now been sent to all members of the Federal Open Market Committee.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary