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, January 27, 1953, at 11:40 a.m.

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

Messrs. Earhart, 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
Messrs, Mitchell, Rauber, Roelse, Wheeler, and R. A. Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. S. S. Marsh, Jr., Manager, Securities Department, Federal Reserve Bank of New York
Mr. Ralph F. Leach, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Daane, Assistant Vice President, Federal Reserve Bank of Richmond

Messrs. Erickson, Gidney, and Powell, 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. Deming, First Vice President, Federal Reserve Bank of St. Louis; Messrs. Bopp and

Thompson, Vice Presidents of the Federal Reserve Banks of Philadelphia and Cleveland, respectively; Mr. Parker B. Willis, Financial Economist, Federal Reserve Bank of Boston

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held in Washington on January 6, 1953 were approved.

Before this meeting there was sent to the members of the committee a report of open market operations covering the period January 6 to January 23, 1953, inclusive. At this meeting, Mr. Rouse presented and commented briefly upon a supplemental report covering commitments on January 24-26, 1953, inclusive. 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 open market account for the period January 6 to January 26, 1953, inclusive, were approved, ratified, and confirmed.

Mr. Thomas made a brief statement with respect to recent economic and credit developments along the lines covered in a memorandum prepared by the staff under date of January 23, 1953. In his remarks, Mr. Thomas noted that economic activity is continuing to rise although commodity prices have not been particularly strong in recent weeks and downward adjustments have taken place in some important markets. With respect to the credit situation, Mr. Thomas stated that demand for bank credit continued active although there had been some seasonal contraction since the beginning of the year. With further seasonal contraction in bank loans expected, Mr.

Thomas felt that the situation required continued restraint since it was important that banks not endeavor to use the funds thus obtained to expand loans of a nonseasonal nature. He indicated that the seasonal easing due to post-Christmas currency and credit contraction had about come to an end and had been balanced by decreases in securities held by the System under repurchase contracts and, to some extent, in member bank borrowings. In the next two weeks there might be some increase in demand for Federal Reserve credit. He believed that member bank borrowings from the Federal Reserve System were likely to continue on the average above $1 billion over the next several weeks, unless credit contraction were more than seasonal.

At Chairman Martin's request, Mr. Riefler made a statement in which he noted that discussions in recent meetings of the executive committee had been concentrated on whether or not there should be an increase in the discount rate of the Federal Reserve Banks. This became effective in mid-January after some of the year-end seasonal pressures on the money market had been relieved, there had been a moderate seasonal contraction in credit, the business situation continues at a very high level, and a large Treasury refunding operation is going to be on us within the next few days. The problem of policy to consider, Mr. Riefler said, is how the System should operate during the next few weeks in view of these conditions: Should the System take reserves out of the market? Should it neither increase nor decrease reserves available to the market and let the market forces operate freely during the forthcoming refunding? Or, should the committee put funds into the market in the immediate future?

Mr. Rouse stated that at the present time, the System was about $270 million short of withdrawing the amount of money put into the market since November 1 and that, in the normal course, considering the current restrictive credit policy of the Committee and recent credit demands, the System would withdraw around $250-270 millions either by allowing bills to run off or by sales of securities. He noted, however, that a large Treasury refunding operation would shortly be announced, perhaps later this week, and raised the question of whether during the period of the refunding he should allow maturing Treasury bills to run off, or enter bids with a view to replacing them.

Mr. Thomas expressed the view that the net amount of reserve funds put into the market during and since last September had been largely needed to meet the additional currency demand and the gold outflow as well as some moderate growth in deposits; he questioned whether it would be desirable for the System to withdraw any more at this time.

Chairman Martin suggested that the matter be considered in terms of its impact on the prospective Treasury refunding.

In response to a question from the Chairman, Mr. Rouse stated that he had assumed the committee would not operate in the market during the period of the Treasury refunding and that it would be necessary to enter bids for Treasury bills to take care of the $93 million of bills maturing next week and now held in the account.

Chairman Martin felt that, in order to avoid the possibility of interfering with the forthcoming Treasury refunding, it would be preferable to bid for bills so as to make certain that existing holdings were maintained.

Mr. Rouse stated that he agreed that it would be desirable for the System to maintain its holdings at this time, adding that while there was no problem in disposing of bills at present any further liquidation of System holdings might well be postponed until after the February Treasury refunding was over, the books had been closed, and there had been an announcement by the Treasury of the degree of success of the refunding.

It was understood that the procedure suggested by Chairman Martin would be followed by Mr. Rouse in entering bids for bills to replace those maturing from the System account next week.

Chairman Martin then raised a question as to the general degree of restraint on credit expansion that was called for in view of recent economic and credit developments as reviewed by Mr. Thomas, particularly the contraction in credit since the beginning of this year and the prospect for some further tightening in the situation during the next few weeks.

Mr. C. S. Young noted that borrowings of member banks at the Federal Reserve Bank of Chicago had represented approximately half the total discounts in the Federal Reserve System during the past week, having totaled more than $450 million on recent days. He said that this reflected purchases of bills by Chicago banks for use in connection with the April 1 personal property tax date in Cook County, Illinois, and that there would be a substantial temporary outflow of deposits from Chicago to New York around that time.

Mr. Hugh Leach felt that the committee should continue operations directed at modest restraint without, however, interfering with the Treasury refunding program in the immediate future.

In response to Chairman Martin's question, Mr. Rouse stated that while there was no need for a change in the limits in the general instruction to be issued to the New York Bank, it would be necessary, after the Treasury announcement of its refunding program had become available, to decide just what procedure should be followed in connection with the System's present holdings of $3,687 million of the $8,868 million issue of certificates of indebtedness maturing on February 15, 1953.

Chairman Martin suggested that no decision in this matter was necessary at this time but that consideration should be given to the question after the Treasury announcement of the refunding.

> 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:
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> (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 referred to the action at the meeting of the Federal Open Market Committee on March 1, 1952 authorizing the distribution of the weekly report of open market operations prepared by the Federal Reserve Bank of New York to those listed in the minutes of that meeting, adding that in view of the appointment of W. Randolph Burgess as Special Deputy to the Secretary of the Treasury with responsibility for debt management, he would like to have authority to furnish a copy of the report to him pending a meeting of the full Committee.

Mr. Rouse's request was approved unanimously.

It was agreed that the next meeting of the executive committee should be scheduled for 10:30 a.m. on Tuesday, February 10, 1953.

Mr. Evans suggested that in anticipation of the meeting of the Federal Open Market Committee to be held during the first week of March, it would be desirable for the Presidents of the Federal Reserve Banks to study developments in connection with consumer and real estate credit in their respective areas between now and then so that the Committee might have the benefit of their views as to what, if any, steps would be desirable in order to restrain expansion of credit in those fields.

Chairman Martin commented that a discussion of this subject would be desirable and that the Committee would welcome suggestions from any of the Presidents or any of the Committee members with respect not only to consumer and real estate credit, but with respect to credit expansion in general.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary