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 on Friday, April 24, 1953, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Mills

Messrs. Johns, Robertson, Szymczak, and Vardaman, 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. Ralph F. Leach, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Willis, Assistant Secretary, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held in Washington on April 8, 1953, 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 April 8 to April 21, 1953, inclusive, and at this meeting Mr. Rouse presented and commented upon a supplemental report covering commitments on April 22 and April 23, 1953. 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 April 8 to April 23, 1953, inclusive, were approved, ratified, and confirmed.

Mr. Rouse stated that, in accordance with the discussion at the meeting of the executive committee on April 8, he talked with qualified dealers in Government securities on April 14, 1953 regarding the decision of the Federal Open Market Committee to discontinue the system of rigid qualifications for dealers to transact business with the System account. Following announcement of the discontinuance of the qualifications system on April 15, Mr. Rouse said, he also talked with a number of other dealers in Government securities, who called to inquire about the announcement. Mr. Rouse stated that he informed all of the dealers that the morning conferences which had been held with qualified dealers in the past were being discontinued, and that most of the firms, on their own initiative, expressed a desire to visit the New York Bank regularly in the future for the purpose of having similar conferences. Mr. Rouse also stated that the only firm which did not wish to come to the New York Bank regularly indicated that it would like to feel free to ask for conferences from time to time.

With respect to reports which would indicate the volume and position of the firms dealing in Government securities, Mr. Rouse stated that all of the firms but one with which he discussed the matter indicated that they

would be glad to furnish figures on a voluntary basis so that the information available in the aggregate would continue to provide useful data regarding the Government securities market. The one exception agreed to furnish certain figures as a basis for resale contracts.

Mr. Rouse then read a list of firms who were dealers in Government securities and with whom the New York Bank is prepared to transact business in United States Government securities pursuant to authorizations of the Federal Open Market Committee. In this connection, Mr. Ralph Leach noted that the list did not include all of the firms which had been represented in the conferences in the summer of 1952 when the ad hoc subcommittee of the Federal Open Market Committee was studying the Government securities market. Mr. Rouse stated that he anticipated some of these firms would come in in the future, while others might not be considered as Government securities dealers. He explained that he had not taken the initiative in going to firms which previously had not been qualified for transactions with the System account and that he did not anticipate doing so.

Mr. Robertson stated that he felt Mr. Rouse's procedure in not taking the initiative in calling upon persons or firms who were not formerly on the list of qualified dealers was wise and desirable, and there was no indication of disagreement with this comment.

Chairman Martin then called upon Mr. Young for a statement on the economic situation.

Mr. Young stated that the general economic situation continued to be one of high activity and income, with production and employment at very advanced levels and with over-all resource utilization more intensive than at any other time in the country's history, short of total war. Business sentiment generally appears to be less uncertain than it was at the time of the last meeting of the executive committee as a result of the "counter" moves by the United States to the "peace offensive" talks, but there is greater caution about longer range prospects than at the beginning of this year. Much of the concern about economic prospects relates to possible developments later this year or next year, the main question appearing to be whether existing levels of economic activity will be sustained in the latter part of 1953 and early 1954.

Mr. Thomas commented upon the credit situation, stating that credit demand had continued unusually strong for this time of year reflecting a contraseasonal increase in business loans and an increase in loans on securities, as well as continued strength of demand for consumer and real estate credit. During the past six weeks total loans of reporting member banks have increased considerably, whereas in the same period last year they declined slightly. Investments in municipal and corporate securities have also risen. Banks have met these demands by continued substantial liquidation of Government securities, especially bills. Demand deposits adjusted declined less in the six weeks than in the same period last year,

but Government deposits decreased in contrast to a substantial increase last year. Mr. Thomas felt that in view of the coming increases in Treasury bill offerings, a tight money market could be anticipated for the immediate future with the possibility that the rate on Treasury bills might rise to as high as 2-1/2 per cent by midyear, unless private credit demands slackened. On the whole, Mr. Thomas felt that a continuation of a credit and monetary policy directed to maintaining restraint on further credit expansion would seem appropriate.

Mr. Johns stated that the business situationin the St. Louis District reflected generally the strong situation described for the national economy by Messrs. Young and Thomas.

Mr. Evans said that while he has had the feeling that credit restraint has not been as tight as would have been desirable in the past year or two, and while he still felt there was no reason for easing the money market situation at this time, it should be recognized that the economy was reaching a place where conditions might call for a change. This would depend to a considerable extent on how much influence the anticipated decline in farm income this year would have on the entire economy.

Mr. Erickson expressed the view that the economy was in a twilight zone with some inflationary factors present and some deflationary factors beginning to appear. He felt credit should be kept fairly tight but that no action should be taken to tighten the situation further.

Mr. Sproul then made a statement substantially as follows:

It seems to me what has been reported here adds up to a continuing high level of business activity but with stable prices and no signs of increasing inflationary pressures for the immediate outlook. For the longer-term outlook, in the absence of some new stimulant to take the place of increasing Government spending or continuing rapidly rising consumer and mortgage credit and to offset the decline in agricultural income, there is a period of adjustment ahead. That suggests to me we are not fighting inflation, but we are faced with the need of a policy to prevent unnecessary expansion of credit which might and sometimes has taken place near the end of an active business boom. That suggests to me the continuance of our present policy of keeping restraint on the situation by keeping the banks in debt to the Reserve Banks at levels ranging around $1-1/2 billion. We should maintain our discount rate, but either to increase pressure through open market operations or to increase the discount rate would be evidence of seeing inflationary pressures which we do not see. However, if we continue to be disappointed in seasonal contraction of credit and if bill rates continue above and move further above the discount rate, I think we will have to reconsider the question and see whether the technical situation in the market, even in the absence of inflationary pressures, does not suggest an increase in the discount rate.

Mr. Mills made a statement substantially as follows:

I should like to ask what significance can be placed on the fact that member bank borrowings, despite the tight money market, have leveled off at about a figure of $1 to $1.2 billion. If you look at that steady level of borrowings and the tight money market and the reduction in central reserve city bank holdings of Government securities, can you deduce that the banks are now in position that their liquidity has fallen to a level that they are maintaining a basic holding of bills and securities to use in adjusting their short-term position? With the very much lower price level for intermediate and long-term Government securities, would the banks be disinclined to take further losses on those securities to meet additional loan demand? They understand that they should not borrow from the Federal Reserve Banks except for temporary purposes. Are

they in a position that they are disinclined to borrow for additional reserves for the reason that if they do, they would be relatively permanent borrowers? It would seem to me we may be approaching a point where we should be very seriously examining the thing that we discussed last year regarding a growing economy; that is, that unless the economy is to be stifled it will require some minimum additions of reserves each year. If the money market banks have reached a position where they are not able to reach the discount window, should we consider providing some reserves by open market operations? Should we consider replacing some of the reserves that are being withdrawn through the gold outflow? Looking ahead to the needs of the Treasury in May and June, should we consider at this time--before the Treasury makes an announcement of its needs--putting a minimum of new reserves into the market with the thought that later in the year, if the business economy continues its growth, we would in any event be putting in some additional reserves? I submit this question for discussion, whether we should be putting in some reserves before the Treasury announcement of its June refunding, but in suggesting this discussion I also wish to say that I believe very strongly that the market should be held in a tight position so that it is really a question of how tight, relatively, it should be.

Mr. Sproul said he thought there was a good deal to Mr. Mills' comments in terms of banks having drawn down their excess reserves and having sold Government securities, thus reducing their liquidity position during the past year, and of having been under pressure (at least in New York) to keep their borrowings from the Reserve Banks from becoming larger and larger and continuous. Although there has been restraint on expansion of bank credit, Mr. Sproul said, the indications and figures are that the restraint has not been such as to choke off an expansion of business which might be considered necessary and desirable to maintain the economy at a high level of operations and employment. Mr. Sproul said that as

he understood the existing policy of the Federal Open Market Committee and the instructions issued at the last meeting of the executive committee, during this period open market operations should offset such natural factors as an increase in currency circulation and the decline in float, as well as losses of reserves through gold and other foreign transactions and Treasury operations, if those losses were tending to force the banks more into debt than would be desirable. Mr. Sproul felt that without intending to support the Treasury's refundings, the present policy and operating procedure would result in administering the open market account so as to take into consideration the several factors he had mentioned, including Treasury operations themselves. He added the comment that it looked as though the Treasury would not obtain enough funds as a result of its recent offering of 3-1/4 per cent bonds and from its indicated additional offerings of Treasury bills to carry through this fiscal year and to meet the heavy demands on the Treasury during July, and that it would quite possibly have to come to the market for additional new money within the next month or six weeks. Some of this money, he felt, might have to come from the banks.

Mr. Mills said, in response to a question from Chairman Martin, that he did not contemplate that the situation necessarily would call for purchases by the System account of bills during the next two weeks but that it seemed to him that the economy was in a period subject to very

rapid change and that the committee should have in mind a policy of flexibility which might include buying bills.

Chairman Martin stated that as he understood it, the existing policy and the understanding reached at the last meeting of the executive committee would permit the procedure suggested by Mr. Mills, and Mr. Sproul stated that this was also his understanding. Mr. Sproul added that as he interpreted the discussion at the April 8 meeting of the executive committee, it was suggested that member bank borrowings should be kept in a range around $1-1/2 billion and it was also indicated that funds might be put into the market to offset Treasury operations, increases in currency circulation, a decline in float, and foreign transactions. He would interpret this to include the effect on bank reserves of possible Treasury financing.

In response to Mr. Riefler's question as to whether this would permit purchases of bills when member bank borrowing was averaging less than $1-1/2 billion, Mr. Sproul said that it would be questionable whether funds should be put into the market when borrowings were below that figure but that he felt such purchases would be permitted if it appeared that the money market had become too tight.

Chairman Martin stated that he felt that a fair interpretation of the understanding at the April 8 meeting of the executive committee was that, if member bank borrowings rose above $1-1/2 billion, the presumption

would be that the System account would have a tendency to acquire some securities; if member bank borrowings were below $1-1/2 billion, the presumption would be against such outright purchases.

Mr. Sproul said that he thought this was a correct interpretation, that the supplying of additional reserves should not be an eager one but that it should be a rather grudging action. His feeling was that the committee's understanding would not, however, forbid such purchases.

Mr. Evans stated that he felt the understandings in this connection should be clearly spelled out in the minutes of the meeting; that his impression of the actions taken at the meeting of the full Committee on March 4 and 5 and of the executive committee on April 8 was that the System account would not operate in the market except to correct disorderly conditions or for credit reasons and that action in either case would be taken only after the executive committee had given careful consideration to existing conditions and had specifically authorized such action. He further stated that he believed repurchase agreements would be needed from time to time without reference to the executive committee and this was entirely satisfactory to him. Mr. Evans suggested that, if there were to be any outright purchases of securities before the next meeting of the executive committee, there should be a definite indication given at this meeting of the amount of such purchases and the conditions under which they would be made.

Mr. Sproul responded that his understanding of the program of "staying away from the market" meant staying away from the Government securities market and holding back on the correction of disorderly conditions in the Government securities market; it did not mean staying away from the market in terms of effectuating credit policy. He noted that the executive committee gives instructions to the New York Bank to operate within certain limitations. He did not think any exact formula could be written which could govern precisely the amounts and timing of purchases for the System account for a future period, adding that the actual operations in the account must depend on the conditions and evidences of market needs in the light of the Committee's over-all credit policy. He felt that, as Chairman Martin had indicated, a general guide was furnished by the figure of member bank borrowings of around $1-1/2 billion, with the presumption that there would not be outright purchases for the System account if borrowings were below that figure although they would not be prohibited; and with the presumption that, if borrowings rose above $1-1/2 billion, there would be outright purchases although they would not necessarily have to be made. In response to a question from Mr. Evans as to why there should be any purchases, Mr. Sproul said that it would be the aim of the New York Bank in operating the System account to carry out the credit policy of the full Committee and the instructions of the executive committee.

Mr. Szymczak noted that credit was still expanding and that the economy was at a high level. He said that, as he understood it, the New York

Bank would not act to make any purchases unless developments on a day-to-day basis in terms of the general credit policy of the full Committee and the instructions of the executive committee called for such action.

Mr. Sproul concurred, stating that under this policy the market would be kept tight. He added the comment that the central bank occupies a difficult position and performs a difficult role; that the art of central banking had been described as "reaching adequate conclusions from inadequate facts".

Mr. Evans said that he understood the form of the general instruction given by the full Committee and the executive committee was being reviewed as a result of the actions taken at the meeting of the full Committee on March 4 and 5 of this year, and he expressed the hope that the instructions to the New York Bank would be changed so as to state more specifically what the executive committee wanted the Bank to do.

Chairman Martin stated that while the minutes of the meetings of the executive committee could be written to bring out fully the understandings reached, he did not feel that the instructions given to the New York Bank could be changed in the manner suggested by Mr. Evans since it was essential that there be flexibility in order to carry out the general credit policy of the committee. He went on to say that there was another aspect of the procedure under discussion which he felt was important, namely, that before making outright purchases for the System account, reserves should be made available to the market through repurchase agreements.

Chairman Martin emphasized that he did not think it was possible to project operations far in advance in more specific terms than was indicated by the committee's general discussions and direction to the New York Bank, and in this connection he read an excerpt from the minutes of the executive committee meeting on April 8 which suggested that the program to be followed should include offsetting the effect on the reserve position of banks of such "natural" factors as an increase in currency circulation and a decline in float, and keeping member bank borrowings in a range around $1-1/2 billion.

Mr. Thomas questioned the desirability of a commitment to the figure of $1-1/2 billion, stating that there was a risk in using such a figure as the sole or principal guide to operations in the System account. In case member bank borrowing at such a level should prove not to be adequately restrictive and credit and monetary expansion were to proceed at a more rapid pace than would be desirable, purchases to prevent a further rise in borrowing would merely support further undue expansion. He questioned particularly whether the understanding given to the New York Bank should include a commitment to offset tightness in the market which resulted from Treasury financing or bank purchases of Government securities growing out of such financing. This would mean supplying reserves for further credit expansion.

Mr. Robertson responded that the figure of $1-1/2 billion should not be interpreted as precluding the exercise of judgment on a day-to-day basis.

Chairman Martin stated that the executive committee would be meeting again in a couple of weeks, that in giving instructions to the New York Bank it might not be essential to cite any figure, but that until the next meeting he felt that the figure of $1-1/2 billion would provide as good a general guide as any other. He also stated that this was not the time of year to be putting reserves into the market to take care of normal growth in the economy, that this was a time when there should be seasonal contraction in credit, and that addition of any reserves to take care of long-term growth should be at a period of seasonal expansion in credit demands.

Mr. Leach mentioned the suggestion that use of repurchase agreements should precede outright purchases, and Chairman Martin said that he felt it desirable to include this in the understanding as to operations in the System account.

Mr. Sproul agreed that it was preferable to use repurchase agreements for meeting a temporary situation but said that it would not be desirable nor possible to do so for meeting a continuing need for additional reserves. He also said that he was not suggesting that borrowings of member banks would rise above $1-1/2 billion during the next two weeks and that he was not suggesting that there would be any need to purchase Government securities within that period. Operations in the account, he said, would have to depend on the state of the market and the economy.

Mr. Mills agreed that there was nothing in the picture at the present time to indicate the need for a change in operations in the System account during the next two weeks.

In further discussion, it was agreed unanimously that a continuation of the procedure that had been followed since the meeting of the executive committee on April 8 would be appropriate for operations in the System account until the next meeting of the executive committee, it being understood that operations would be carried on in the light of the Federal Open Market Committee policy of restraint on credit expansion, with a view to permitting as little change in the present money market as possible. This would include the presumption that if member bank borrowings from the Reserve Banks were much below $1-1/2 billion the System would not make outright purchases in the market, but that if borrowings rose above $1-1/2 billion it would be presumed that such purchases would be made except that reserves would first be made available through repurchase agreements.

In response to Chairman Martin's question, Mr. Rouse stated that he would not suggest any change in the limits contained in the general direction given by the executive committee to the New York Bank.

Mr. Evans questioned whether the authority to purchase securities exclusive of special Treasury certificates of indebtedness was needed in the amount of $1 billion, and during the ensuing discussion Mr. Sproul suggested that the amount be reduced to $500 million, it being understood

that if a situation arose where additional authority was needed this could be obtained by consultation among members of the executive committee by telephone or telegraph.

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 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 $500 million;

(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 tentatively should be set for 10:30 a.m. on Wednesday, May 13, 1953.

Thereupon the meeting adjourned.

Secretary