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 Thursday, June 11, 1953, at 4:30 p.m.

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

Mr. Robertson, Member of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
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. Arthur Willis, Assistant Secretary, Federal Reserve Bank of New York
Mr. Ralph F. Leach, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on May 26, 1953 were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period May 26 to June 10, 1953, inclusive, were approved, ratified, and confirmed.

Mr. Sproul referred to the action taken by the Federal Open Market Committee at its meeting earlier today rescinding the understandings reached at the meeting on March 4-5, 1953 that (a) under present conditions, operations for the System account should be confined to the short end of the market (not including correction of disorderly markets) and (b) pending further study and further action by the Committee, the Committee should refrain during a period of Treasury financing from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange. He suggested that the executive committee instruct the Federal Reserve Bank of New York to confine transactions for the System account to short-term securities which he assumed would mean securities having a maturity of 15 months or less. Mr. Sproul also suggested that the executive committee agree that operations for the System account at the time of a Treasury financing should be considered specifically by the executive committee prior to such financing. He went on to say that he was making these suggestions in view of the fact that, while the executive committee had been operating under an instruction from the full Committee that it should confine its operations to short-term securities, the executive committee on May 13 had indicated that such operations should be confined to bills and the New York Bank had interpreted this action by the executive committee as meaning that transactions must be limited to bills. With respect to operations during a period of Treasury financing, Mr. Sproul said that he felt the executive committee should make it clear that the action taken by the full Committee earlier today in eliminating the prohibition against certain operations for the System account during periods of Treasury financing did not constitute an authority for the New York Bank to take any action in such periods without further action by the executive committee.

Mr. Evans inquired as to what operations Mr. Sproul would contemplate would be undertaken for the System account that were not now being undertaken, if his recommendation were adopted, and Mr. Sproul responded that he would contemplate that there might be some purchases of short-term securities other than bills having a maturity of 15 months or less; otherwise, he did not contemplate that anything would be done in the System account that was not now being done. With respect to a Treasury financing, Mr. Sproul felt that the executive committee should meet before a decision on the next Treasury financing was reached and at that time it could determine what operations for the System account should be during the financing period.

Mr. Evans said that as he understood it, Mr. Sproul's proposal was that the executive committee authorize the New York Bank within the limits of the full Committee's credit policy to carry on operations for the System account in securities of 15 months maturity or less, preferably in bills, and Mr. Sproul stated that that was correct.

Mr. Mills stated that he felt operations should be continued exclusively in bills unless the action taken by the full Committee earlier today amounted to a directive that the action suggested by Mr. Sproul must be taken.

Mr. Sproul responded that in his opinion the action taken by the full Committee was not such a directive; that it was understood that the executive committee would have freedom to act in the light of its judgment; that the full Committee's action simply eliminated an instruction to the executive committee to confine purchases to the short end of the market and to avoid certain operations during periods of Treasury financings.

Mr. Evans said that he would prefer to continue operations for the System account on the same basis as at present, that is, to keep them in bills, unless there was a strong reason for making a change.

Mr. Rouse noted that the letter from the Secretary of the Committee dated April 8, 1953, transmitting to the Federal Reserve Bank of New York the understandings reached at the meeting of the full Committee on March 4-5, 1953, had, in effect, been nullified by the action of the full Committee earlier today so far as it related to the two points mentioned by Mr. Sproul, i.e., confining purchases to the short end of the market and avoiding certain operations during periods of Treasury financings.

> Mr. Mills then moved that the Federal Reserve Bank of New York be instructed by the executive committee to confine operations for the System account exclusively to Treasury bills until otherwise instructed by the executive committee.

Mr. Mills' motion was put by the Chair and carried, Messrs. Martin, Evans, and Mills voting "aye" and Messrs. Sproul and Erickson voting "no".

In taking this action, it was understood that it would not apply in the case of purchases of special short-term certificates of indebtedness direct from the Treasury.

Chairman Martin observed that he did not feel it was desirable for either the executive committee or the Federal Open Market Committee to run an operation of this type as it had today, where important actions were voted without having a meeting of minds of a substantial majority of the members.

Mr. Riefler then referred to the general credit policy adopted by the full Committee at its meeting earlier today under which it was provided that there should be aggressive supplying of reserve funds to the market during the near future on a sharply rising basis. He noted that the full Committee had authorized a change in the wording of its directive to the executive committee to incorporate appropriate wording along these lines in lieu of the phrase previously in the directive, which had provided, among other things, that transactions should be "with a view to exercising restraint upon inflationary developments".

During the ensuing discussion Mr. Riefler read the wording of the directive from the full Committee to the executive committee, and it was agreed that, in carrying out this policy, the directive to be given by the executive committee to the Federal Reserve Bank of New York should be changed to incorporate substantially the same wording that had been incorporated in the full Committee directive, i.e., that, among other things, transactions should be with a view "to avoiding deflationary tendencies without encouraging a renewal of inflationary developments (which in the near future will require aggressive supplying of reserves to the market)."

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 (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to avoiding deflationary tendencies without encouraging a renewal of inflationary developments (which in the near future will require aggressive supplying of reserves to the market), and (c) 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.

In response to a question from Mr. Evans, Mr. Sproul stated that in terms of credit policy, he felt it would be a mistake for the Federal Reserve System to reduce reserve requirements of member banks at this time, that such action would be taken as a definite indication of an easy money policy which he did not believe to be desirable at this stage.

It was agreed that the next meeting of the executive committee would be held on Tuesday, June 23, 1953 at 10:30 a.m.

Chairman Martin referred to the discussion at the meeting of the full Committee today regarding the proposal for a revision in directives of the full Committee and the executive committee. He suggested that, pursuant to the arrangement agreed upon at that meeting, the executive committee appoint himself and Mr. Sproul to consider the proposal for revision, with the understanding that whatever recommendation they had to make would be submitted to the members of the executive committee and then to the full Committee.

This suggestion was approved unanimously.

Mr. Rouse referred to the agreement at the meeting of the full Committee today that he and Mr. Leonard, Director of the Division of Bank Operations of the Board of Governors, would prepare and submit to the members of the full Committee a memorandum with respect to the details for a revision in the procedure for allocation of Government securities held in the System account so that the allocation would be based on total assets of the Reserve Banks. He went on to say that until the new plan of allocation was approved, it would be desirable to make some minor changes in the existing procedure, such as having each Reserve Bank's holdings in the account represent a participation in total holdings, rather than a participation in Treasury bills and another participation in interest bearing securities. None of the members of the executive committee indicated that there would be objection to minor changes such as Mr. Rouse referred to.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary.