

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, May 24, 1955, at 10:40 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Leach
Mr. Mills
Mr. Balderston, Alternate for Mr. Vardaman

Messrs. Fulton, Irons, Robertson, Shepardson,
and Szymczak, Members of the Federal Open
Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Daane and Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of
Governors
Mr. Koch, Assistant Director, Division of Re-
search and Statistics, Board of Governors
Mr. Miller, Chief, Government Finance Section,
Division of Research and Statistics, Board
of Governors
Mr. Gaines, Securities Department, Federal Re-
serve Bank of New York

On May 18, 1955, the Secretary sent to the members of the committee a letter stating that an additional suggestion had been received for a change in the revised draft of minutes of the meeting of the executive committee held on April 26, 1955 and approved on May 10, 1955, which would change the next to the last sentence of the last paragraph on page 10 of those minutes* as follows:

*Refers to mimeographed copy. In the typed copy, reference should be made to next to last sentence of full paragraph on page 11.

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He agreed with Mr. Balderston that the time had come for ~~very~~ serious consideration of further tightening moves, and ~~his inclination would be for an~~ THAT IF AN INFLATIONARY POTENTIAL SHOWED TOO STRONGLY IN THE ECONOMY, THE NEXT CONSIDERATION SHOULD BE A POSSIBLE increase in reserve requirements.

Upon motion duly made and seconded, and by unanimous vote, the additional revision in the revised draft of minutes of the meeting of the executive committee held on April 26, 1955, was approved.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on May 10, 1955, 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 May 10-19, 1955, and at this meeting there was distributed a supplementary report covering commitments May 20-23, 1955, inclusive. Copies of these reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse commented briefly on the reports and noted that the reserve projections indicated a need for outright security purchases in the week ending June 1. In response to questions from Mr. Robertson regarding sales of Treasury bills from the System account to satisfy orders placed by two international accounts, he said that the general approach of the System account was that transactions should be through the market and that the sales of securities direct to foreign accounts was unusual, although similar transactions (both purchases and sales) had taken place upon

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occasion during recent years. Mr. Rouse also noted that sales from the System account to the foreign central banks were made at a time when, in terms of current operating policy, it seemed desirable to forestall a further release of reserves in the market because free reserves were already about \$400 million.

Upon motion duly made and seconded, and by unanimous vote, the open market transactions during the period May 10-23, 1955, inclusive, were approved, ratified, and confirmed.

Mr. Young then made a statement with respect to the economic situation concerning which a staff memorandum was sent to the members of the committee under date of May 20, 1955. Mr. Young stated that this meeting's report was repetitious of that given at other recent meetings in that the dominant theme was the continuing advance of activity in this country and in industrial areas abroad. Total national product during the current quarter is running at an annual rate of \$375 billion, \$5 billion above the 1953 peak. Industrial production is at the 1953 peak with many industries at new record levels. Personal income is about 4 per cent over last year, with disposable income and wage and salary income at a new peak. Indicative of the breadth of advance in industrial activity has been the recent distribution of takings of steel output—over three-quarters of near record steel shipments in March were to other than automotive industries. Manufacturers' new orders and sales also have advanced broadly and, while durable goods industries still show the most marked advances, other major industry groups also have shown strong pickup.

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Retail sales in April were about 6-1/2 per cent higher than a year ago with durable goods sales, especially of new automobiles, a major factor in the sales level. Stocks of both new and used automobiles have risen lately and, though high historically, are under a month's supply. Improved sales of used cars have checked the rising stock trend there. Department store sales in May have been a little below the advanced April level, but sales of house furnishings and major appliances have been especially strong recently, facilitated by increased extensions of consumer instalment credit.

Business inventories have begun to tend upward both at manufacturer and distributor levels, but the advance thus far seems modest in relation to increases in output and sales. Construction activity in April showed a further rise, but there was a less than seasonal rise in new housing starts—the first "straw-in-the-wind" of possible tempering of residential construction activity. Rising employment has continued to feature the labor market, and in May continued claims for unemployment benefits in important industrial States declined further. Unemployment is still estimated at around three million. In agriculture, production credit and real estate credit have been showing considerable advance this year, and in some regions it appears that this credit is being backed more than is usual by farm land. Wholesale and consumer prices have shown little change in recent months. Abroad, demand for American exports continues strong, and exports of nonfarm products, steel and coal especially, have shown further

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sharp rises. British economic expansion seems to continue uninterrupted despite a tight credit supply.

Chairman Martin then called upon Mr. Thomas who made a statement covering developments in the capital issues markets and on the position of the Treasury during recent weeks, mentioning particularly the inflow of Treasury receipts above estimates and the wide variations in Treasury balances at the Reserve Banks, which had made it difficult to keep bank reserves on an even keel.

Mr. Thomas also reported on recent developments in bank credit, noting particularly that loans of reporting member banks had increased fairly sharply recently in contrast with declines during the corresponding period of last year. He stated that recently the rate of increase in deposits at reporting member banks had been somewhat less than it was up until January of this year, but that the rate of turnover of demand deposits had picked up.

Mr. Thomas also referred to a tabulation, copies of which were distributed at the meeting, showing a pattern of recent and projected reserve changes during the next three months. He noted that in the absence of operations for the System open market account the volume of free reserves would be negative from the latter part of May until the end of August.

Chairman Martin stated that the committee was facing the problem of seasonal needs for credit and the fact that it must allow something for growth in the economy. At the same time, it should bear in mind the current

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credit policy which was aimed at keeping an "even keel." He suggested that at this meeting there be a discussion of the program to be followed in the light of the Treasury financing problem, noting that the Treasury would be faced with deficit financing in July and August. Chairman Martin went on to say that there had been recurring suggestions that the private and Treasury needs for credit during the remainder of this year be met by a reduction in reserve requirements. This, however, had difficult implications in terms of its relation to credit policy. He also suggested that at this meeting there be a further discussion of the desirability and practicability of "keeping the keel a little more even" than it has been lately. Chairman Martin recalled that there was agreement at the meeting held on May 10 that the committee did not wish to "change horses in the middle of the stream" but he expressed the view that, with the recent Treasury financing out of the way, if the committee could keep a more even keel it would be a desirable objective. He then called upon Mr. Sproul who made a statement substantially as follows:

1. The upward movement of the economy into new high ground is proceeding but at a reduced pace. Autos, housing, and steel are levelling off, while much of the rest of the economy still advances. There may be a breathing spell in the third quarter.
2. In any case, however, demand for credit will be strong and, during the remainder of 1955, we shall have a more difficult time than we have had for two or three years in formulating and administering credit policy and in coordinating it with debt management.
3. During much of the period the private economy will be actively seeking credit to support seasonal expansion and longer term growth. Treasury will have to come to the market for a

substantial amount of new money. Both of these demands will call for an expansion of bank credit, and for additional reserves to support such expansion.

4. Treasury borrowing from banks at a time of high level economic activity has inflationary implications, but the Treasury is a necessitous borrower; it can't reduce its immediate borrowing needs, and it can put them off only briefly. The problem from a credit standpoint is how and in what amounts to make reserves available to the banking system, so that it can meet the needs of both the public and private sectors of the economy, without promoting excessive use of credit.
5. In 1953 and 1954 a similar situation was met under different conditions by a summer reduction in reserve requirements. In 1953 it was more or less outright, and in 1954 it was tied in with open market operations which, initially, sopped up some of the reserves released to the banks by the reduction in reserve requirements and later fed them out to the banks. But the conditions of 1953 and 1954--declining economic activity and an easy money policy--are not the conditions of 1955. A reduction in reserve requirements is not practical credit administration in a period of vigorous upswing in economic activity and with a policy of credit restraint, no matter how mild. If we tried the tactics of 1954, we should either mislead the market or make our own policy ineffective, partly by reason of the restoration of a more liquid position in the banking system. It seems to me the situation will have to be handled with open market operations and the discount window.
6. If this be so, one alternative is to work on the basis of more or less rigid projections of reserves needed to permit and promote sustainable expansion of the private economy. If reserves are then made available from time to time to facilitate Treasury financing, there would have to be a corresponding reduction in the amount of reserves made available to support private financing. The objective would be to avoid the inflationary possibilities of Treasury borrowing from the banks, and the assumption would be that Treasury borrowing ultimately becomes available to the private economy through Treasury expenditures. In my opinion this is putting too much faith in reserve projections, is liable to result in a more restrictive credit policy with respect to the private economy than is immediately necessary or contemplated, and involves some element of double counting of the use of reserve funds.

7. Another alternative is to attempt to continue our present policy, which has become one of mild restraint, by adjusting open market operations and discount action to the developing economic situation, but paying relatively more attention to interest rates and to member bank borrowings, and relatively less attention to a free reserve target, as signals of the possible economic effects of our policy. While maintaining the general objective of free reserves ranging around zero, temporary departures from this range would not be the cause of too much concern. On the other hand, a too rapid and continuous rise in interest rates or a too rapid and sustained increase in member bank borrowing, particularly in face of the possibility of a breathing spell in the third quarter, would be a signal for reconsideration of policy.
8. This would mean making reserves available through open market operations to meet the needs of the private economy and the needs of the Treasury in the immediate future, so that incidence of those needs would not unduly increase the degree of pressure we are now exerting. It would mean not prejudging the effect of Treasury borrowing on the private economy, nor relying too heavily on long term reserve projections. It would permit cutting down later on the provision of reserves to the private economy, however, or making these reserves more expensive by raising the discount rate, if the Treasury borrowing does have important inflationary consequences or if private borrowing appears to be excessive.
9. It is not easy to determine what kind of a debt management program would coordinate best with such a credit policy, because from the cycle standpoint the Treasury shouldn't be borrowing new money from banks at this time. We may assume that by necessity and because of the nature of the borrowing --to meet a deficit during the last half of this calendar year which will be largely erased during the first half of next calendar year--Treasury cash borrowing must be and will be at short term, whether tax anticipation bills or certificates or something else in the one year or less area. That would seem to be best from the standpoint of credit policy and debt management.
10. During the last half of 1955 the Treasury will have to do about \$9.5 billion of cash financing. It will need about half of that amount in July and August. This could be borrowed either in one chunk in July, or in two chunks of 2 and 2.5 billion in July and August, or over the whole period, perhaps, by means of increased bill issues.

11. In my own thinking I have come to the conclusion that a one chunk borrowing in July, no matter what form of short-term paper it takes, may be preferable from a credit policy standpoint. It would conform to our general objective of having the Treasury come to the market less frequently, and thus less frequently placing a blanket on our operations. It would conform to the principle of keeping cash financing as separate as possible from refundings; there will have to be a refunding in mid-August. It would probably enable us to keep better control of the reserve situation; to maintain an even keel for two borrowings in July and August would inhibit our operations for two months. To provide the climate in which increased weekly borrowings could be successful, without a rapid run-up of interest rates, based on anticipation of future conditions rather than on current demand and supply conditions, would probably force us into more or less continuous intervention in the market and in amounts larger than might otherwise have been necessary. If the borrowing is done in one chunk, we can thereafter put and keep the banks under pressure so that, to the extent we find it necessary or desirable, they will have to sell Government securities or borrow from us to meet private demands. The market as usual would make the final decisions as between private claimants of credit.
12. I would not depart, therefore, from our present policy of not trying to tell the Treasury formally and in writing what specific issues it should offer in its forthcoming financing, but would tell it what our general credit policy objectives and methods are going to be. Consultation at staff level on its methods is always available.
13. So far as our operations during the next two weeks are concerned, our projections of reserves and the Board's projections are now pretty close together and would indicate the necessity of some outright purchases of short-term securities. If we have to make outright purchases, I think we should contemplate the possibility of using the full range of short-term securities, whether 12 or 15 months is not entirely clear. There would not appear to be a sufficient supply of bills available in the market to permit us to release the indicated volume of needed reserves solely through bill purchases unless we are prepared to drive bill yields down markedly, through aggressive buying.

Mr. Szymczak said that he could not understand why Mr. Sproul thought that the Treasury should go to the market only once in July and

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why the Treasury should not increase its offerings of Treasury bills in July. His view was that a substantial increase in bill offerings in July would not disrupt the committee's open market operations.

Mr. Sproul responded that the Treasury might be able to increase its offerings of bills in July and to get the money which it would need at a price, but that on the basis of the present outlook for credit demand and supply, he felt such a procedure would be at the expense of a rise in auction bill rates each week, probably going beyond a level that would be desired in terms of present credit policy. Mr. Sproul said that bidding for an increased supply of Treasury bills would be in the expectation that rates would be increasing from week to week, and that in that atmosphere it probably would be impossible to carry through such a program of Treasury financing without an undesirable run-up in bill rates. Mr. Sproul went on to say that he would suggest that the attitude be one of making a clear unwavering assumption that the Treasury's financing was to be done in the short-term area. Whatever way the Treasury decided to do its financing in the short-term area, Mr. Sproul felt that the committee could accommodate credit policy to the program. It might be possible for the Treasury to have one offering in July and another in August with a fixed coupon, or to issue new bills at auction: his view was that these differences were not of such magnitude as to present an insoluble conflict with credit policy.

Mr. Leach said, in response to a question from Chairman Martin,

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that he felt the committee had kept about the right amount of pressure on banks recently. Banks have been more careful in making loans in recent months than they were before that. He could see no reason for increasing the pressure at this time: there appeared to be no problem of inventories and no price development at the moment which need give concern, and he could see no undesirable speculation other than possibly to some extent in the stock market. Mr. Leach said that he would favor maintaining about the same amount of pressure as now exists, which he interpreted as quite small. He noted that since the first of March average free reserves had not been too far from zero except for two weeks in the middle of May when they exceeded \$400 million. He thought that the bulge had done no real harm and that the problem will be even less important in the near future since the System will have to keep putting more reserves into the market in the next few months. Some of these could be supplied through the discount window, and perhaps later on through direct open market purchases. Mr. Leach said that he would be opposed to a reduction in reserve requirements during this period.

Mr. Mills stated that from the discussion and from the review presented by Mr. Young, it seemed that there were two important factors to take into consideration at the present time: first, the growing lack of liquidity in the commercial banking system; and second, the thinness of the market for United States Government securities. The combination of these factors posed a very difficult problem for maintaining a policy

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of credit restraint without precipitating a situation which would compromise that policy by compelling the committee to take action which, on the surface at least, would be contrary to a policy of restraint. To avoid this pitfall, Mr. Mills suggested that it would be necessary for the committee to be very alert to changing conditions. He noted that excess reserves at country banks were barely \$400 million and were not evenly distributed. Many of the small banks would have to meet seasonal demands for credit during the next few months and if credit policy presses too hard they, as well as some of the larger banks, would have no alternative but to sell Government securities at losses with the possible resulting reduction in their capital accounts. He suggested the necessity of being more patient with discount policy than was indicated by the philosophy set out in revised Regulation A, i.e., administration of discount policy should be handled in a way to permit carrying the banks during this period. If this were done and if the System supplied some reserves through the open market, it should be able to avoid "knots" that could be a difficult factor in the economy. As to the thinness of the market, if the System pressed too hard it could bring on a situation which might require corrective actions that would undo the credit policy of restraint and confuse the whole market as to what the System intended to do. Mr. Mills' suggestion was for a fluid approach to operations for the System account in the near future in which it would not be bound to any particular strictures as to what it would do and which would look to the desirability of a more liberal discount

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policy than would be consistent with the philosophy of Regulation A. Such an approach would offer a means of maintaining credit restraint but at the same time allowing individual banks to utilize credit.

In response to Chairman Martin's question whether he would be inclined to the level of free reserves that Mr. Sproul had suggested, Mr. Mills stated that if the committee was not bound to a zero level of free reserves, he thought that it could pursue a general program such as that described by Mr. Sproul which would permit maintaining a fluid or flexible condition in the market.

Mr. Sproul responded that all he intended was to suggest that a fluid policy was needed. As to discount policy, Mr. Sproul said it was his understanding, based on the foreword to the revised Regulation A, that there was nothing repressive or restrictive about the revised Regulation that was not there before, and he also expressed the opinion that discount officers would meet seasonal needs of country banks without being restrained by anything they thought was in the regulation. However, he did not think that even a mild restrictive credit policy could be pursued at a time of active economic growth without some infringement or trespass on the liquidity of the banking system, because that is one of the ways in which credit policy becomes effective.

Chairman Martin inquired whether any of those present felt that the revised Regulation A had been a deterrent to the use of the discount window, adding that he had heard a number of statements to the effect that it had had a restrictive effect.

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Mr. Mills said he did not think the revised regulation had had a restrictive effect but that looking to the immediate future it possibly would be a deterrent, all depending on the twelve Federal Reserve Banks and the approach the officers and directors of those Banks take toward administration of the regulation.

Mr. Leach said that at the Richmond Bank the revised regulation had not made lending policy any tighter than it had been before, and he did not think it would have such an effect. Also, he was of the opinion that commercial banks did not feel the revised regulation would make the Reserve Banks' lending policy more restrictive. With respect to depreciation in Government security holdings, Mr. Leach recalled that in 1952 when discounts got up to the highest level in recent years, not over 25 per cent of the banks in the Richmond District were borrowing at any one time.

Chairman Martin commented that the committee could not restrain the situation without causing some decline in the liquidity position of banks.

Mr. Fulton cited a case of a bank in the Cleveland District located in the tobacco growing area which put funds into longer-term Government securities and which now wished to obtain funds through discounting in order to be able to carry these longer-term securities until the season for marketing tobacco next fall. He added that the Cleveland Bank was not favorable to such use of the discount window.

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Mr. Irons stated that he agreed with the position taken by Mr. Sproul. The economic situation seemed to him to be broadening and the rate of acceleration seemed to be lessening. In thinking about the degree of restriction which the committee was trying to impose, he suggested that while this recovery has been very fast, the economy is still only back to the level of May 1953. He advocated about the same degree of restraint that the committee had been imposing recently.

Mr. Robertson said that he would maintain the present degree of restraint, something that would be very easy if the Treasury financing were not coming up. He would not like to see the committee deviate from the policy followed in the recent past of letting the Treasury make its own decisions as to the instruments for debt management. Much as he would like to see the Treasury use more bills, he would not tell them that they ought to do so. He would much prefer to take care of reserve needs through open market operations and he thought that could be done without too much difficulty, but if the Treasury were to decide on a financing program which did not permit that, Mr. Robertson said that he would be willing to consider a reduction in reserve requirements. He would not like to see the committee depart from the policy of limiting operations to Treasury bills merely for the purpose of putting reserves into the market, nor would he like to see any deviation from discount policy. Regulation A was not intended to be more restrictive in its revised form than it had been before and he could see no basis on which a Federal Reserve Bank should be

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more restrictive in its lending operations than previously. The revision was designed to clarify the picture and to put into specific terms what had been developed as a standard of discount policy. If it became essential to do so, he would, as indicated earlier, be willing to consider a reduction in reserve requirements and, as also indicated before, he would dislike any purchases of securities other than bills unless it became obvious that bill purchases were completely inadequate to do the job. The same degree of restriction should be maintained as at present and the committee should not put too much emphasis on a rigid level of reserves.

Chairman Martin said that he did not think the committee could make a decision today on operations during the period of the Treasury's financing, but it should give the Treasury some indication whether the System was leaning in the direction of handling the reserve situation one way or another—there should be an indication that at least a majority of the executive committee would not favor a reduction in reserve requirements at this time. He was not sure what could be done with respect to the July Treasury financing. He would prefer a one-bite operation if that could be done on a market basis, but it must be remembered that we are under the shadow of a Treasury "failure" to use the word mildly. If the Treasury came to July and wanted a one-bite operation of \$4 billion with the expectation of a rise in interest costs, he thought it would have difficulty unless the financing was handled through an issue of tax bills on an auction basis without determining the rate in advance.

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Chairman Martin went on to say he did not intend to be critical of the management of the System account because he felt this "even keel" was a very difficult objective to attain during a Treasury financing. However, he felt the committee should try to keep as even a keel as possible before, during, and immediately after a Treasury financing. He was in complete agreement that there should be no letter written telling the Treasury what it ought to do and he also agreed that the committee could adjust its policy to the Treasury's financing. But, he said, it does not help the committee and it does not help the Treasury to have a Treasury financing failure. Chairman Martin said that he had some misgivings with respect to a one-bite operation in July on the basis of the earlier smaller operation. He had turned over in his mind the question of a reduction in reserve requirements and while he agreed with Mr. Robertson that that possibility should not be eliminated, he had grave doubts about providing re-reserves in that manner this year: the point Mr. Sproul had made to the effect that in this period the situation was different from that which existed a year ago was a valid one. The System's action at that time gave a psychological impetus to the economic situation. His view was that the Treasury should now know that there were serious doubts as to whether the System would feel that it could reduce reserve requirements as a means of providing the market with necessary reserves this summer.

Mr. Sproul said that he thought the Treasury could be told that the present inclination of the committee was not to favor a reduction in

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reserve requirements because it would not be consistent with the current economic situation and current credit policy and because it was not the only way to meet the problem of providing additional reserves this year. Mr. Sproul did not think the committee would have too great difficulty in coordinating credit policy with debt management whichever way the Treasury did its financing. It should begin by not allowing pressure to build up during the next few weeks. If it made some further outright purchases during the Treasury financing and additional purchases before and immediately after the payment date on the new offering, it would seem to him that System account operations could be fairly consistent with what would be indicated by credit policy. The amount of reserves the banks would need in this period, growing out of Treasury borrowing, would be in the neighborhood of \$400 million. If the provision of these reserves tended to bring about a relaxation of the pressure the System wishes to maintain, further moves could be made to correct the situation. Mr. Sproul did not think the committee was faced with an insoluble problem, no matter how the Treasury did its financing in the short-term area. By means of open market operations, consistent with the policy of maintaining about the present degree of pressure, and by its purchases of securities, the committee could give an indication of a desire to maintain about the existing situation and of its willingness to meet developing needs.

Mr. Robertson inquired whether Mr. Sproul would say that the Treasury would have to stay rigidly within the short-term area, and

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Mr. Sproul responded that he did not see anything in terms of debt management that would justify or make it possible for the Treasury to do anything but stay in the short-term area.

Chairman Martin said there was another aspect of the situation that gave him some concern. This was the matter of extension of operations from bills to other shorter maturities. If the bill cupboard is swept bare, there will be no alternative but to go outside bills, but he thought that if this were done there should be no "dabbling in rates" and no attempt to relate those rates one to another. The committee should be careful that it did not just start "playing the piano across the board." He did not know how much would be needed in the next couple of weeks since this would depend on the feel of the market, but whatever the committee was going to put into the market in terms of the objectives it was seeking, he would hope this would be done in accordance with the general proposition that the committee was only going to buy securities other than bills when the cupboard had been swept bare of bills.

Mr. Sproul said that the committee certainly should not have a scale of rates or some smooth curve of rates that it was trying to bring about or trying to maintain, and Chairman Martin agreed with this statement.

In response to a question from Mr. Robertson, Mr. Sproul said that the figure of \$400 million of additional reserves he had mentioned would be in accordance with a program of not allowing existing credit

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pressure to be increased by the demand for reserve funds that would result from Treasury financing in July and August and with the thought that the committee would make adjustments afterwards if the addition of those funds seemed to make conditions easier than the committee intended. For example, if those funds flowed back into the private economy and unduly eased credit conditions, it might then be necessary to provide less for the private economy later in the year than otherwise would be the case. Mr. Sproul went on to say that the \$400 million figure referred to the amount that might be needed during the time of the Treasury offering and up to and through the payment date for the securities offered, a period of about four weeks. In addition, between now and the Treasury financing the committee would have been supplying reserves in accordance with the projections that had been discussed. By reason of that fact, it would have been giving some indication to the market that it was not going to allow pressures to cumulate.

Mr. Thomas commented that on the basis of the projections and the figures Mr. Sproul had mentioned, the total to be put into the market between now and the end of July or early August would be around \$800 million in order to avoid an increase in pressure. Mr. Thomas then referred to the possibility of transactions in securities other than bills. In the first place, he said, yields on certificates and short notes were now lower than on bills and if the committee tried to operate in other short-term securities it would have a problem. In the second place, banks still

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hold more bills than certificates. Therefore, he did not know why it would help particularly to operate in other short-term securities than bills. If the committee wished to improve the liquidity position of banks it would have to buy medium-term issues unless the Treasury increased the supply of bills.

Mr. Balderston requested that Mr. Thomas summarize the outlook for the volume of Treasury borrowing between now and the end of the calendar year and how much the banks would have to take.

Mr. Thomas stated that estimates indicated total Treasury borrowing for new money of about \$9 to \$9-1/2 billion of which something like \$2 to \$2-1/2 billion would be to take care of cash redemption of savings notes and other maturing securities. The net increase in the debt would thus be about \$7 billion between now and the end of 1955. Holders who redeem securities for cash would have funds for other uses. Of the \$7 billion increase in debt, corporations could take a substantial amount as they usually do in the fall of the year because they will be accumulating tax liabilities in that period. This could be in the neighborhood of \$2 to \$3 billion. Assuming there was no reduction in reserve requirements, the Federal Reserve would have to buy \$2 billion or more between now and the end of the year to take care of seasonal demands and growth, much of this to be liquidated shortly after the turn of the year. Thus the corporate and Federal Reserve demand might be around \$5 billion of the net expansion

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of \$7 billion in the debt during the rest of the year. There would be a continuing demand on the part of pension and trust funds which would be partly offset by sales by insurance companies and savings banks. On the basis of seasonal factors and with allowance for moderate extra-seasonal growth in the money supply bank credit might expand between now and the end of the year by as much as \$8 billion, leaving out Federal Reserve and mutual savings banks. Mr. Thomas felt it not inconceivable that, given a moderate loan demand—more than in 1954 and 1953 but less than in 1952—banks could increase their holdings of Government securities during the rest of this year by \$2 billion or so. If, however, they expand consumer credit and real estate loans at the rate they have been doing recently, and if they increase business loans substantially and make more loans on securities, banks might not be able to add to their present holdings of Government securities. In any event the potential demands for Government securities in the next few months were largely in the short-term area.

Mr. Balderston stated that it seemed clear that if the bills were available the entire need for reserves could be taken care of through open market operations. He went on to say that it seemed to him that the committee's problem was one of not merely getting through the July financing but of considering the entire period between now and the end of the year. If the committee was going to tell the Treasury of its thinking it ought

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to indicate very promptly the dimensions of the problem as it saw it between now and the end of 1955, so that the Treasury would not be surprised by misunderstanding what was in the minds of the members of the committee. Mr. Balderston said that he sympathized with the established policy of not telling the Treasury what it should do in its financing but that it did seem to him that the responsibility of the Open Market Committee involved two things: first, it should tell the Treasury that it seemed incompatible with existing credit policy to reduce reserve requirements this summer; and second, the decision of the Open Market Committee to "hold steady" during a period of Treasury financing would be facilitated greatly if the Treasury in its turn would make more bills available. He suggested that the committee assure the Treasury that it would be assisted in its financial problem--that that was one of the responsibilities of the committee. In turn, it should tell the Treasury that it could help the Open Market Committee by increasing the volume of bills. This he would do informally, without anything in writing.

Chairman Martin then referred to Mr. Balderston's comments with respect to informing the Treasury of the committee's program. He said that he gathered it was the sense of the meeting that members of the committee could tell the Treasury informally of the views expressed at this meeting.

Mr. Szymczak suggested that the problems of debt management were discussed at the weekly luncheons with Treasury representatives and that

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these would seem to offer opportunity for discussing the need for additional bills in the market.

Chairman Martin then referred to a staff memorandum distributed under date of May 20, 1955, "Role and Status of Short-term Debt in Treasury Debt Management," and he suggested that this subject might be discussed at the next meeting of the executive committee.

Mr. Sproul stated that this was a most important question from the standpoint of longer range policy in debt management as well as from the standpoint of credit policy, and that it indicated the difficulties of trying to draw too sharp a line between the overlapping responsibilities of the Treasury on the one hand and the Federal Reserve on the other. He said we each have primary responsibilities but we also have secondary responsibilities which involve taking into account some of the responsibilities of the other fellow.

Chairman Martin agreed with this statement.

Mr. Sproul then reverted to his suggestion with respect to purchases of short-term securities other than bills, stating that his idea would not be to try to provide liquidity to the banks. As Mr. Thomas had said, the committee would not be helping the liquidity of banks by dealing in other short-term securities than bills. Rather, his idea was to provide reserves to the banking system without pressing our purchases on a market which at the time might be bare of bills. In other words, the proposal

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was to place the committee in the position where it would not be prevented from providing reserves if the market was bare of bills and other short-term securities were available.

Chairman Martin stated that this was his understanding of Mr. Sproul's suggestion and that purchases of short-term securities other than bills would be made only if the market was bare of bills. In doing this, he said, he would hope as he had indicated before that the System would not "play the piano" and that it would keep in the shorter maturities.

Mr. Robertson stated that this would be within the existing policy of the Federal Open Market Committee and within the executive committee's existing instructions, and Mr. Sproul agreed, stating, however, that he felt it should be discussed with the executive committee before such purchases were made.

Mr. Szymczak stated that if additional new bills were provided by the Treasury in July the System might be able to furnish the needed reserves to the market without going into other short-term securities. He went on to say that the committee would have to provide some reserves to the market through purchases of outstanding securities during the next few weeks. If it took up the bills in the market and if the Treasury did not issue additional bills during July, the situation would become extremely difficult at that time. This might mean that the Federal Reserve would be faced with something that it did not feel would fit in with existing policy, namely, a reduction in reserve requirements.

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Mr. Sproul responded by stating that he thought the committee could adjust its policies to whatever the Treasury did if its financing was within the short-term area, and that whatever the Treasury offered it could be assumed it would increase the supply of short-term securities.

Chairman Martin stated that he had in mind calling the next meeting of the executive committee for 10:45 a.m. on Monday, June 6, 1955, and none of the members of the committee indicated disagreement. He then inquired whether there were other aspects of the situation that should be discussed at this time. In the absence of suggestions from other members of the committee, the Chairman stated that it appeared to be the consensus that during the next two weeks the committee's operations should be carried on roughly within the current instructions to the New York Bank, with the understanding that the committee would leave to the management of the System account the problem of maintaining an "even keel" in the light of the discussion at this meeting. There was general agreement with this statement.

In response to a question from Chairman Martin, Mr. Rouse indicated that no change in the directive to be issued to the New York Bank was needed 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 (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering growth and stability in the economy by maintaining conditions in the money market that would avoid the development of unsustainable expansion, 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 \$750 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 \$750 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate \$500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Mr. Sproul referred to the staff memorandum on the role and status of short-term debt in Treasury debt management which Chairman Martin had mentioned earlier, stating that the subject was of sufficient long range importance to suggest that it might be well to ask the Treasury if it would wish to conduct a coordinated study of the matter. Since the staff memorandum was a tentative draft it was Mr. Sproul's view that it might be

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desirable to mention the subject orally to Treasury representatives with the thought of asking that they develop their ideas at the same time that the committee was studying the matter so that there would be no implication that the committee was attempting to propagandize the Treasury by presenting it with a written statement which might seem to represent a more fixed view of the Committee than is actually the case.

Chairman Martin stated that he thought this was a very good idea and, in the absence of objection, he would plan on following that suggestion.

Chairman Martin also referred to a memorandum prepared at the request of Mr. Riefler giving a record of sales of tax anticipation bills at auction by the Treasury in the autumn of 1951 and 1952 when the economic situation was somewhat comparable to that now in prospect. He stated that copies would be distributed to the members of the committee.

Thereupon the meeting adjourned.


Secretary