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 Wednesday, June 27, 1951, at 2:35 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Szymczak
Mr. Williams

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Young, Director, Division of Research and Statistics, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Leach, Economist, Division of Research and Statistics, Board of Governors
Mr. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee held on May 7 and May 17, 1951, were approved.

Mr. Rouse presented and commented upon a report prepared at the Federal Reserve Bank of New York covering transactions in the System open market account during the period May 17, 1951 to June 25, 1951, inclusive. He also presented a supplementary report covering commitments executed on June 26, 1951. 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 as reported to the members of the committee for the period May 17 to June 26, 1951, inclusive, were approved, ratified, and confirmed.

Chairman Martin then referred to the Treasury notes maturing on August 1, 1951, in the amount of $5,351 million, stating that on the assumption that they should be refunded with an 11-month certificate, the question was whether the rate should be 1-7/8 or 2 per cent.

Mr. Sproul stated that, in his opinion, no further tightening of credit terms is needed at this time, but that we should continue to try to keep a check-rein on credit against the possible re-assertion of inflationary pressures later in the year. In these circumstances he said he had come to the conclusion that the notes maturing on August 1 should be refunded with a 1-7/8 per cent 11-month certificate. This, he felt, would be in line with the market as it was now developing, would meet nonbank investor needs, and it would do less to disrupt the market for outstanding securities than would a higher rate. At the same time he emphasized that such a recommendation to the Treasury would not put the System in a "strait jacket" with respect to recommendations of increased rates that it might wish to make later in the year. In addition, he said, the market was expecting a 1-7/8 per cent offering, we have just begun to recreate the climate of successful Treasury offering, and a higher rate might be misinterpreted as indicating further restrictive policies when none are immediately intended. With respect to current new money needs of the Treasury, Mr. Sproul felt that the best procedure would be for the Treasury to step up the weekly offerings of bills by $200 million so that if used through a 13-week cycle the Treasury might obtain sufficient additional funds to meet its current needs and to pay off bonds that would be maturing September 15.

Mr. Thomas stated that he thought that the 1-7/8 per cent 11-month note was probably the best offering at this time in view of the slight relaxation of inflationary pressures, although he felt it was desirable to guard against any impression of a commitment that 1-7/8 per cent necessarily was the rate at which refunding offerings would be made later in the year.

Messrs. Williams, Szymczak, and Eccles also indicated that, for reasons which they expressed, they felt it would be desirable to recommend to the Treasury the issuance of an 11-month 1-7/8 per cent note for refunding the August 1 maturities.

> Following a further discussion, Chairman Martin was authorized by unanimous vote to transmit to the Treasury in such manner as he deemed best the substance of the foregoing recommendation.

In a discussion of the basis on which future purchases and sales of Treasury bills should be made for the System open market account, Mr. Sproul expressed the view that the System should buy bills when the rate seemed to be getting up to a point where it would interfere with Treasury refunding as indicated by a distinct preference for bills as compared with longer maturities. This was no set figure, he said, but for the present might be within a range somewhere around 1.58-1.64. He added that the objective would be to avoid putting funds into the market and at the same time to avoid interfering with market determination of what the short-term rate should be to the extent that this could be done without interfering with refunding operations.

It was understood that operations in Treasury bills would be carried on under the general direction to be issued to the Federal Reserve Bank of New York at this meeting and in the light of the foregoing comments made by Mr. Sproul.

It was also understood that operations in other short-term securities would be conducted in the light of developments and the objective of as much flexibility in the market as possible in the short-term rate without interfering with Treasury refunding.

In response to a question by Mr. Thomas, Mr. Rouse stated that a $200 million increase in the weekly bill offering probably would be taken by the market without any arrangement with the dealers to provide the necessary bids.

There was a discussion of System operations in restricted bonds and of the level to which the longest-term restricted Treasury bonds might be permitted to decline. It was the consensus that no change should be made in the understanding reached at the meeting of the executive committee on May 7, 1951, namely, that in the absence of further instructions from the committee it would be understood that the Federal Reserve Bank of New York would not permit the longest-term Treasury issues to decline below 96-3/4 but that no action would be taken to cause prices of these securities to move to that level.

In connection with a comment by Mr. Thomas as to the desirability of a further conversion offering of nonmarketable bonds for outstanding restricted issues, it was the consensus that this problem should be given further study.

In response to a question from Mr. Eccles, Chairman Martin stated that the Treasury was about to launch a new savings bond drive. During the ensuing discussion, it was suggested and agreed to that in anticipation of possible changes in the savings bond program next year, it would be desirable for the staff to review the study of the savings bond program prepared by the System research committee on Government finance under date of January 10, 1951, with a view to having the report brought up to date and submitted to the committee at an early meeting.

Mr. Sproul suggested that the matter might move forward to action more readily if it were given special consideration or made the special province of a member of the Board of Governors. He suggested that inasmuch as Mr. Norton, a member of the Board of Governors, had had experience in selling techniques and had expressed an interest in this matter, he might be asked to study the problem and suggest recommendations that might be made to the Treasury as to how the drive might be conducted. Chairman Martin said he would discuss the matter with Mr. Norton.

In response to a question from Chairman Martin, Mr. Rouse stated that he would not suggest any change in the present limitations contained in the existing direction to the Federal Reserve Bank of New York.

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, either in the open market or directly from, to, or 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 account at the close of this date shall not be increased or decreased by more than $1 billion exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction;

(2) To purchase direct from the Treasury for the System open market account 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 in the account at any one time shall not exceed $750 million.

In taking this action it was understood that the limitations contained in the direction include commitments for purchases and sales of securities for the System account.

It was understood that the next meeting of the executive committee would be subject to call by the Chairman.

Thereupon the meeting adjourned.

Secretary.