

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 Friday, April 4, 1952, at 10:30 a.m.

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

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

Mr. Riefler, Secretary  
Mr. Thurston, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Thomas, Economist  
Mr. Young, Associate Economist  
Mr. Rouse, Manager, System Open Market Account  
Mr. Carpenter, Secretary, Board of Governors  
Mr. Sherman, Assistant Secretary, Board of  
Governors  
Mr. Ralph F. Leach, Economist, Division of  
Research and Statistics, Board of Governors  
Mr. Youngdahl, Acting Manager, Securities De-  
partment, Federal Reserve Bank of New York  
Mr. Willis, Securities Department, 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 on March 1, 1952, were approved.

Chairman Martin stated that following discussions with the individual members of the executive committee, there was transmitted to the Secretary of the Treasury on April 1, 1952, a recommendation that the weekly offering of Treasury bills be increased by \$200 million for the time being.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee in recommending to the Treasury on April 1, 1952, that the weekly offering of

4/4/52

-2-

Treasury bills be increased by \$200 million  
for the time being was approved and ratified.

Chairman Martin referred to the request made of him when he appeared before the Subcommittee on General Credit Control and Debt Management (Patman Subcommittee) of the Joint Committee on the Economic Report on March 11, 1952, that he supply for the examination of the Subcommittee copies of certain communications from the Open Market Committee or the Board of Governors of the Federal Reserve System to the President of the United States or to the Secretary of the Treasury during the period July 1950-February 1951. He went on to say that the request was discussed with all members of the Federal Open Market Committee and that it was agreed the material should be made available to the Subcommittee for use in executive session, but that in furnishing it, the Chairman should express the view that there was a serious question of public policy involved as to whether documents of this kind should be placed in the public record. In accordance with the request and this understanding, Chairman Martin said, he and Mr. Vest attended a meeting of the Patman Subcommittee in executive session on Tuesday afternoon, March 25, 1952, at which time he took with him a letter prepared for his signature which previously had been cleared with all members of the Federal Open Market Committee and which read as follows:

"During the course of my testimony before your Subcommittee on March 11, 1952, I was requested by the Subcommittee to make available in executive session, for examination by the several members, certain communications from the Federal Open Market Committee and the Board of Governors to the President and to the Secretary of the Treasury with respect to questions of credit policy and Treasury financing in the winter of 1950-1951.

4/4/52

-3-

"We have reviewed our records and enclose the following documents which we believe to be responsive to your request:

Letter addressed to Secretary Snyder under date of July 12, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to Secretary Snyder under date of July 31, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Statement for the press issued by the Board of Governors and the Federal Open Market Committee on August 18, 1950.

Letter addressed to Secretary Snyder under date of October 16, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to Secretary Snyder under date of October 30, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to Secretary Snyder under date of November 17, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to the President under date of December 1, 1950, by the Chairman of the Board of Governors on behalf of the Board.

Letter addressed to the President under date of December 9, 1950, by the Chairman of the Federal Open Market Committee.

Memorandum expressing the personal views of Mr. Sproul, Vice-Chairman of the Federal Open Market Committee, which was left with Secretary Snyder during a meeting which Mr. McCabe, Chairman of the Open Market Committee, and Mr. Sproul had with the Secretary on January 3, 1951.

Letter addressed to the President under date of February 7, 1951, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to Secretary Snyder under date of February 7, 1951, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

"In the course of the hearing I expressed the view that there was a serious question of public policy involved as to whether or not documents of this kind relating to discussions which took place more than a year ago should be placed in the public record. As I stated, I am perfectly willing to have you, Mr. Chairman, or your Committee, or anyone you designate, take a look at any records we have. While I favor the fullest possible disclosure of all matters affecting the public interest I still question whether it would be wise and in the public interest, looking to the future rather than to the past, to spread on the record these documents, not previously disclosed, dealing with very complex and controversial matters which since have been satisfactorily resolved.

4/4/52

-4-

"In addition to the letter from the Board of Governors to the President which discusses the role of fiscal, credit and monetary measures in the emergency, there are enclosed among the documents two letters addressed by the Federal Open Market Committee or its Chairman to the President which relate particularly to open market and debt management policies. In deference to his high office I feel that I must offer objection to the entering of these letters in the public record. This is especially true in the case of the letter to the President dated February 7, 1951, with respect to which assurances were given to the office of the President by a representative of the Open Market Committee that unless the President released the letter the Open Market Committee would not do so. In such circumstances, I earnestly hope that your Committee will not make these letters public.

"The enclosed documents represent all the written communications we have been able to find that fall within the scope of the Committee's request. We have not included memoranda reflecting individual recollections of the many conversations which of course took place during this period."

Chairman Martin said that in presenting the letter and material to the Subcommittee, he reiterated the views expressed in the transmittal letter, and that after a friendly discussion he and Mr. Vest withdrew from the room in which the Subcommittee was meeting. They were called back into the room 20 or 30 minutes later, Chairman Martin said, at which time Chairman Patman stated that the Subcommittee had not decided whether it would include the documents in the public record. Mr. Patman kept the transmittal letter but returned the enclosures with the request that he (Chairman Martin) keep them for possible future request by the Subcommittee.

Continuing, Chairman Martin said that at that time he felt it unlikely that the Subcommittee would insist upon publication of the material but that in the course of the next few days developments resulted

4/4/52

-5-

in a unanimous decision by the Subcommittee that it wished to enter the material into the public record, that the matter had been discussed with the Secretary of the Treasury, and that the Secretary of the Treasury had written him under date of April 3, 1952, as follows:

"This will confirm the fact that I have no objection to the submission by you to the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, for inclusion in the record of the proceedings of that Subcommittee if it should care to do so, of copies of letters addressed to me by the Chairman of the Federal Open Market Committee, dated, respectively, July 12, 1950, July 31, 1950, October 16, 1950, October 30, 1950, November 17, 1950, and February 7, 1951.

"This will further confirm the advice that the President would have no objection to the submission by you to the Subcommittee, for inclusion in the record of its proceedings if it should care to do so, of copies of letters addressed to the President, as follows: Under date of December 1, 1950, by the Chairman of the Board of Governors of the Federal Reserve System; and under date of December 9, 1950, and February 7, 1951, respectively, by the Chairman of the Federal Open Market Committee."

Chairman Martin stated that in view of these developments, it seemed best to dispose of the matter by acceding to the request of the Subcommittee that the documents be furnished for publication, and at his request Mr. Thurston read portions of a draft of letter which would transmit the material to the Subcommittee.

Mr. Sproul said that he did not think there was any choice but to furnish the material, and the other members of the Federal Open Market Committee who were present concurred in this view.

4/4/52

-6-

Thereupon, upon motion duly made and seconded, and by unanimous vote, the action of Chairman Martin in presenting to the Subcommittee the letter dated March 25, 1952, and the accompanying material was approved and ratified.

It was also agreed unanimously that the documents listed in the letter of March 25, 1952, should again be transmitted to the Subcommittee in accordance with its request that they be made available for the public record. In taking this action, it was understood that the Secretary would clear the re-submission of the material with the members of the Federal Open Market Committee who were not at this meeting and that when the transmittal letter was in a form satisfactory to Chairman Martin it would be sent.

Before this meeting, there had been distributed to the members of the committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period February 29, 1952 to April 1, 1952, inclusive. At this meeting, Mr. Rouse presented a supplementary report showing that there were no transactions in United States Government securities for the System account on April 2 and 3, 1952. 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 account for the period February 29, 1952 to April 3, 1952, inclusive, were approved, ratified, and confirmed.

In connection with his report on operations in the System account, Mr. Rouse stated that during the period between March 17 and the end of

4/4/52

-7-

the month the question arose as to how the Treasury's balances with the Federal Reserve Banks and the special certificate of indebtedness held in the System open market account should be handled over the week end of March 22 in view of the fact that two of the Reserve Banks and several branches would be open on that Saturday. He described an arrangement which had been worked out in consultation with the Treasury for the possible purchase by the Federal Reserve Bank of Richmond of a special certificate of indebtedness direct from the Treasury as of Saturday, March 22, if an overdraft in the Treasury's balance developed in the Reserve Banks open on that day. Mr. Rouse stated that the same procedure could apply to similar situations in the future or when a holiday is observed in New York but not in another Federal Reserve city or cities.

Mr. Rouse noted that section 7 of the regulation of the Federal Open Market Committee provides that no Federal Reserve Bank shall purchase or sell Government securities for its own account or for the account of any other Federal Reserve Bank, except pursuant to authority granted by the Committee or in accordance with open market policy adopted by the Committee and in effect at that time. While it turned out that the Treasury had an excess balance at the Reserve Banks which were open at the close of business on the Saturday for which the special arrangements were made so that no special certificate was needed, Mr. Rouse recommended that, in order to avoid the necessity for obtaining special authorizations

4/4/52

-8-

for each purchase of special certificates by an individual Reserve Bank, a continuing formal authorization be issued to the Federal Reserve Banks. Such authorization, he said, under arrangements made by the Federal Reserve Bank of New York, would provide for the purchase of special certificates direct from the Treasury, from another Federal Reserve Bank, or from the System open market account where that would facilitate the handling of the Treasury's balances on Saturdays or holidays when the Federal Reserve Bank of New York was closed and another Federal Reserve Bank was open. Mr. Rouse stated that he would be glad to submit a memorandum with respect to the matter in advance of the next meeting.

At Chairman Martin's suggestion, it was agreed that the matter would be considered at the next meeting of the executive committee and that Mr. Rouse would submit to the individual members of the committee a memorandum with respect to the proposed continuing authorization.

Reference was made to the action of the Federal Open Market Committee at its meeting on February 29, 1952, in referring to the executive committee the suggestion that there be a review of the procedures and practices with respect to the establishment of rates governing the purchase by the Federal Reserve Banks of bankers' acceptances on the open market in accordance with the regulation of the Federal Open Market Committee. It had also been proposed that section 8 of the Federal Open Market Committee regulation might be revised along lines indicated in a memorandum which was distributed with the agenda for the meeting of the full Committee on February 29, 1952.



4/4/52

-9-

Chairman Martin suggested that the staff be requested to prepare a draft of recommendation in connection with this matter and that it be submitted to the members of the executive committee before the next meeting.

This suggestion was approved unanimously.

At Chairman Martin's request, Mr. Thomas summarized a memorandum which he had prepared under date of April 3, 1952, with respect to current problems of open market operations. The memorandum was distributed to the members of the committee and a copy has been placed in the files of the Federal Open Market Committee. In his comments, Mr. Thomas referred to the action at the last meeting of the Federal Open Market Committee at which it was agreed that no change should be made in the Committee's current policy of neutrality in the market under which market forces of supply and demand are permitted to have their effect with a minimum of System intervention except to the extent necessary to promote orderly market conditions. He said that a strict interpretation of that action would mean that the System would stay out of the market under ordinary conditions. Mr. Thomas raised the question whether the direction was too rigid or whether it would be desirable for the System account to operate more freely in the market in a period such as the past two weeks when the money market had been exceptionally easy and the bond market strong. With respect to the economic situation, Mr. Thomas stated that activity continued at a high level with moderate increases in expenditures by Government, business, and consumers, but without further inflation, although forces operating toward the resumption

4/4/52

-10-

of inflation are in prospect. In these circumstances, questions to be considered were (a) whether open market operations should be directed toward preventing the continuation of easy money markets and rising bond prices, (b) when and how the Treasury should borrow funds, (c) whether the Treasury should take advantage of the present strong bond market and offer a bond issue for cash during the next few weeks, and (d) in the event the Treasury did not offer such an issue, whether the Federal Reserve should sell securities from its open market account in order to prevent the development of undue ease in the money markets.

Chairman Martin then called upon Mr. Powell who, after commenting on recent developments in the money market, suggested that there be a review of operations of the System in the recent past for the purpose of determining whether the System had in fact been pursuing a policy of true neutrality in the money market or whether there had been only superficial neutrality. He cited the additions to bank reserves resulting from the gold inflow over the past year and the lack of decline in bank loans thus far during 1952 and suggested that, although the System had not been adding to its holdings of Government securities, perhaps it should have acted to keep bank reserves from increasing and to keep the money market somewhat tighter through sales of securities from the System account. Mr. Powell also referred to securities acquired by the System during periods of Treasury financing and wondered whether sales of securities when the opportunity arose as an offset to such purchases should not be considered within the policy of "neutrality".

4/4/52

-11-

Chairman Martin said that it was important to consider what the Committee meant by "neutrality" and how one might judge when operations had absorbed a sufficient amount of reserves to fit into this policy.

In response to Chairman Martin's request that he comment on the problem, Mr. Rouse said that he had interpreted the action taken at the last Committee meeting strictly, but that he would include in a definition of "neutrality" the withdrawal, to the extent possible, of reserves that were provided by an inflow of gold or a return of currency from circulation, or which were released through repayment of bank loans. He would also include, to the extent possible, the withdrawal of reserves that were put into the market during a period of Treasury financing. Mr. Rouse added that since the meeting of February 29 he had made no market sales or purchases for the System account except for the purchase of \$5,000,000 Treasury bills on March 10 on an orderly market basis and their subsequent resale. He also said that in any day-to-day sense the bond market had not been disorderly during that period and that in his opinion it was a healthy thing that the market had come to think in terms of moves in prices of securities up to as much as 1/2 of a point in a day.

There followed a discussion of possible standards for measuring neutrality during which it was suggested that a test might be a volume of member bank borrowings at the Reserve Banks of around \$400 to \$500 million. It was also stated that even though the present policy of neutrality were not to include action to offset development of extreme

4/4/52

-12-

ease in the money market, it might be appropriate as a matter of policy to urge the Treasury to take action to issue new securities in the next few weeks as a means of obtaining funds which it would need later in the year. Such action by the Treasury would not allow the present ease in the market to continue.

In this connection, there was a discussion whether, in order to reduce the ease in the market, there should be sales from System holdings of 2-3/8 per cent bonds issued by the Treasury in connection with its March refinancing, concerning which the executive committee at its meeting on March 1, 1952, authorized the payment of a commission of as much as 1/32 of a point on transactions engaged in to encourage a more active secondary market.

Mr. Ralph Leach believed that it might be preferable to continue to hold the 2-3/8 per cent bonds in the System portfolio and to permit such market interest as developed for this issue to express itself in the market price. By this means, he felt, the market, and particularly dealers, would be encouraged to put over subsequent Treasury financing without too much reliance on System support during the period of the offering.

Mr. Rouse did not believe that sales of some of those bonds would have caused a shock to the market, and Chairman Martin commented that if the System account had sold such bonds when they had gone to a slight premium, such action might be misinterpreted by dealers as unnecessary intervention in the market. A decision against selling System

4/4/52

-13-

holdings of those bonds would not, however, suggest that the System should not take action to absorb excess bank reserves by sales of other securities from the account.

Mr. Sproul said that at a time when the System was pursuing a policy of neutrality and trying to avoid interfering with the revival of a free market, he did not think there could be any exact measure which would say when the System should buy or sell securities. It was necessary for the committee constantly to be looking at all aspects of the situation since it did not operate in a vacuum with its eyes only on a banking or credit policy; it must look through that to production and business and employment. Mr. Sproul did not see why the System should be greatly concerned about the current temporary ease in the money market since it was not accompanied by a revival of inflationary pressures, and while he would have preferred not to have had to put so much money in the market at times of Treasury financing, the resulting net additions to bank reserves had not proved dangerous thus far. Looking ahead, however, Mr. Sproul said that the System may have a different problem in the second half of this year since there appears to be danger of inflationary pressures becoming more active; as defense expenditures increase a sizable cash deficit develops and the Treasury becomes a substantial borrower at the same time that the usual seasonal increase in credit takes place. He felt that in the recent past the concept of neutrality may have been construed too narrowly, that it should not mean abstention of the System from the market

4/4/52

-14-

at all times if it was necessary for the System to act to prevent additional reserves from becoming embedded in the market as a result of gold inflow, return of currency from circulation, or a seasonal reduction in bank loans in the second quarter of the year. Over the next few months, Mr. Sproul felt the System might do what it could to offset the reserves released from any reduction in bank loans so as to keep them from being put to use again. Thus, when the System is called upon to put funds into the market next fall, it won't be building on an already high structure of bank credit. He added that the limits of what the System could do were closely related to Treasury borrowing and that consideration must be given to that question before the committee could decide on its program.

Chairman Martin commented that the discussion indicated that in carrying out its policy there should be a somewhat freer interpretation of "neutrality" than had been applied during the past few weeks, and none of the members of the committee who were present indicated disagreement.

The Chairman then brought up the question of when and how the Treasury should borrow, stating that yesterday he attended the meeting of the American Bankers Association Committee on Government Borrowing at the Treasury, at which there was a discussion of a special savings bond drive in which there would be included a new savings bond having a higher yield than the present E bond if redeemed during the early years, and reaching a 3 per cent yield at maturity.

Mr. Rouse stated that he understood the suggestion for such a bond contemplated that it would be in addition to the present series E

4/4/52

-15-

bond and not a substitution of it.

The Chairman then called upon Mr. Sproul who stated that while he felt the savings bond program long ago should have been revamped, he did not think that proposed variations in the savings bond program should be allowed to defer action on other fronts while a special drive was being organized and a new type of savings bond was being devised. Mr. Sproul said that he felt the Treasury should be looking now at the question of cash financing, that it appeared that it would need to borrow some \$10 billion during the rest of this year, and that about \$2 billion of this would be needed before the end of May to keep Treasury balances at a safe minimum. In these circumstances and in order to reduce the frequency of financing, he said that it seemed desirable for the Treasury now to issue securities which would obtain about \$3 billion, an amount sufficient to carry it through the summer. The broad objectives of this and later borrowings should be to get the money, to get as much nonbank money as possible, and to improve the debt structure so as to relieve congestion in the 1-5 year area. This suggested a diversified approach, drawing on all three sectors of the market - short, intermediate, and long. For the next month or six weeks it would be desirable to continue to issue additional Treasury bills to obtain a total of as much as \$1 billion from this source. Secondly, the Treasury might offer for general cash subscription, with provision for payment by tax and loan accounts in the case of banks, \$1 to \$1-1/2 billion of 2-3/8 per cent or 2-1/2 per cent bonds dated May 15.

4/4/52

-16-

Third, the Treasury might offer for general cash subscription \$1 billion of 3 per cent bonds dated May 15, which would mean a bond having a maturity of about 30 years. This bond might be offered to insurance companies and certain other institutional investors with the understanding that they could make payment for it over a 3- or 4-month period, say in 3 equal instalments in May, July, and August in order to get away from the June tax payment date. Mr. Sproul added that it was not possible to formulate a definite plan for the third and fourth quarters now, but that savings bonds should be revised so as to make them a net source of funds rather than a drain on the Treasury as at present, and that some form of tax anticipation bills might be used in the last quarter of the year and paid off with surplus cash in the first half of 1953.

This suggested program was discussed and Chairman Martin stated that he felt a diversified program such as Mr. Sproul had outlined for the next few weeks might be suggested to the Treasury at this time. In addition to Mr. Sproul's suggestions, Chairman Martin felt that the program might include a recommendation to the Treasury that it take steps to increase the attractiveness of savings bonds by a revision of the present bonds or by announcement of a supplementary issue such as that mentioned by the American Bankers Association Committee on Government Borrowing. There was general agreement with these proposals and Chairman Martin suggested that a draft of letter to the Secretary of the Treasury be prepared incorporating the various suggestions, and that when it was in a form satisfactory to



4/4/52

-17-

the members of the executive committee it be sent to Secretary of the Treasury Snyder.

This suggestion was approved unanimously.

Secretary's note: The letter to the Secretary of the Treasury, prepared for Chairman Martin's signature, was sent under date of April 8, 1952, after having been approved by the individual members of the executive committee.

"The Executive Committee of the Federal Open Market Committee, at a meeting on April 4, 1952, gave consideration to questions of open market operations and related problems of Treasury financing during the next few months in the light of recent and prospective developments in the money market and the general economic situation.

"The Executive Committee feels that since inflationary pressures are not dominant at the moment, there is little immediate need for the adoption of more vigorous measures of credit restraint, particularly in view of uncertainties as to the near future. On the other hand, the expanding defense program, the continued high level of private investment, and the danger of a further wage-price increase continue to present the possibility of a resumption of inflationary pressures later in the year. The Committee is strongly of the opinion, therefore, that the development of undue ease in the availability of credit at this time should be avoided. To permit or facilitate too great ease in the credit situation at the moment would run the risk of stimulating demands for credit in the private sector that would add to inflationary pressures just at the time when the defense program is expanding, a substantial cash deficit is developing, and the Treasury's borrowing needs are increasing.

"The present slack in credit demands and the strength in the bond market seem to the Committee to offer a real opportunity for the Treasury to raise funds not only to meet current needs but also in anticipation of larger demands for funds later in the year. If the Treasury could cover some of its future needs by borrowing now, it would absorb available funds that might otherwise flow into private channels and contribute to resumption of inflationary pressures. The situation is also one in which the Treasury might borrow on

4/4/52

-18-

"more favorable terms than may be available later when private and Government demands are likely to be more actively competing in the market.

"Accordingly, the Committee felt that you might wish to give consideration to a program of financing along the following lines, which would make the greatest appeal for nonbank funds in all sectors of the market, while mopping up bank funds that may tend to accumulate temporarily. The whole program presumably would raise around 3 billion dollars to carry you well into the summer.

(1) Some further increase in the weekly bill offerings could be made (up to a total of say 1 billion dollars), in order to tap available liquid funds and also to meet needs not covered by other means of financing.

(2) A small offering of medium-term bonds might be issued sometime in May to attract funds that may be available at banks in the absence of active loan demands at this season.

(3) A small issue of long-term marketable bonds could also be offered in May, to be subscribed for on a commitment basis, or to be paid for in installments covering a period of three or four months. It is believed that with appropriate terms there is a demand for such bonds from many institutional investors even though demands from large insurance companies may be relatively light.

(4) In order to attract more of the savings of individuals that have been accumulating in large amounts, a decision on a revised program for Series E savings bonds should be announced or a supplementary issue of a somewhat more attractive type of savings bond might be offered.

"Prompt announcement of the intention to offer at an early date moderate amounts of intermediate and long-term bonds of the kind suggested would make it possible for the market to adjust to the announcement before final decisions are made as to the particular terms of the issues to be offered.

"I should be glad to discuss with you these suggestions, as well as matters relating to the form of the various offerings, if you desire, whenever it may be convenient for you to do so."

Mr. Vest stated that question had been raised as to whether

"V" loan obligations purchased by a Federal Reserve Bank acting as fiscal

4/4/52

-19-

agent of the United States, but with the use of its own funds, involved a transaction which falls within the provisions of section 14(b) of the Federal Reserve Act authorizing the Federal Reserve Banks to purchase directly from the United States up to \$5 billion of United States obligations. He said that for reasons stated in a memorandum which he had prepared under date of April 4, 1952, he believed that a transaction of the kind described was not an open market operation, did not fall within section 14(b), and need not be included in the reports made by the Board to the Congress pursuant to that section.

No member of the committee indicated disagreement with Mr. Vest's opinion, and it was understood that copies of his memorandum would be sent to all Federal Reserve Banks.

Reference was made to the understanding at the meeting of the Federal Open Market Committee on May 17, 1951, which was reaffirmed at the meeting on October 4, 1951, as to conversion of System holdings of 2-3/4 per cent bonds of 1975-80 into 5-year 1-1/2 per cent marketable notes. Under that program \$1 billion of bonds were converted into notes dated April 1, 1951, an additional \$500 million were converted into notes dated October 1, 1951, and another \$500 million would be converted into notes to be dated April 1, 1952, leaving \$714 million in the account, the disposition of which was to be considered after April 1, 1952.

Mr. Sproul stated that having in mind the desirability of holding 1-1/2 per cent notes of different maturities, he would suggest that

4/4/52

-20-

the executive committee recommend to the full Committee at its next meeting that the remaining \$714 million of bonds be converted into notes to be dated October 1, 1952.

This suggestion was approved unanimously with the understanding that the matter would be placed on the agenda for the next meeting of the full Committee.

Mr. Vest stated that Mr. Gilbert, President of the Federal Reserve Bank of Dallas, had raised a question concerning the action of the Federal Open Market Committee at its meeting on March 1, 1952, in terminating the authority for Federal Reserve Banks to acquire securities in settlement of claims against closed banks, and he read a draft of proposed reply as follows:

"This refers to the question presented in your letter of March 17, 1952, concerning securities or other assets acquired by Federal Reserve Banks in settlement of claims against closed banks.

"By a resolution of the Federal Open Market Committee adopted on November 30, 1937, and continued from time to time thereafter until March 1, 1952, the Committee took the position that:

'...in view of the fact that securities acquired by the Federal reserve banks in settlement of claims against closed banks will be in such small amounts as to be unimportant from the standpoint of credit control, the Committee, until otherwise directed by it, would interpose no objection to a Federal reserve bank holding any such securities acquired by the bank, or to the sale of such securities whenever such sale is deemed to be advisable by the holding bank.'

"At the meeting on March 1, 1952, the above authority, which had been continued from time to time, was terminated, with the understanding that if circumstances arose which

4/4/52

-21-

"made it appear that it would be useful, the Committee would consider the matter at that time.

"The records of the Board indicate that only two Federal Reserve Banks, Philadelphia and Dallas, now hold any assets acquired as a result of the closing of banks. It is not clear in either case whether the assets are of the kind that would be covered by section 14 of the Federal Reserve Act, and there appears to be considerable doubt whether it would be necessary for those banks to obtain the permission of the Open Market Committee before disposing of the assets. In view of the small amount involved, if an occasion for sale of the assets should present itself, it probably would be a relatively simple matter to obtain the approval of the Open Market Committee, if such permission should be deemed necessary. In any event, the Executive Committee of the Open Market Committee, to whom I have presented this matter, agrees with your view that it is not necessary to transfer these assets to the System Open Market Account."

Upon motion duly made and seconded,  
and by unanimous vote, the above letter  
to Mr. Gilbert was approved.

Mr. Sproul suggested that the general instruction to be issued to the Federal Reserve Bank of New York be changed by reducing from \$2 billion to \$1 billion the limitation in the second paragraph authorizing purchases direct from the Treasury for the System account of special short-term certificates of indebtedness.

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

4/4/52

-22-

"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 \$1 billion.

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.

In a discussion of the date for the next meeting of the executive committee, Chairman Martin stated that he hoped there could be a re-organization of the open market operation along lines which he indicated and that he felt this would call for frequent meetings of the executive committee, perhaps as often as weekly, for a period of time. He said that he would be glad to have suggestions from all of the members of the Federal Open Market Committee as to how the function could be handled more effectively, including suggestions for staff organization, relationships of the Federal Open Market Committee to the Board of Governors, and ways in which more people in the Federal Reserve System could be educated as to the conduct of the open market function.

Following a brief discussion of Chairman Martin's comments, it was understood that the next meeting of the executive committee would be

4/4/52

-23-

subject to call by the Chairman.

Thereupon the meeting adjourned.

  
Secretary.