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, June 6, 1952, at 10:35 a.m.

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

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Ralph F. Leach, Economist, Division of Research and Statistics, Board of Governors
Mr. Youngdahl, Acting Manager, Securities Department, Federal Reserve Bank of New York
Mr. Willis, Securities Department, Federal Reserve Bank of New York
Mr. Robert H. Craft, Technical Consultant

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on May 23, 1952, were approved.

Before this meeting, there was sent to each member of the committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period May 23 to June 3, 1952, inclusive. Mr. Rouse presented at this meeting a supplementary report covering operations on June 4 and 5, 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 open market account for the period May 23-June 5, 1952, inclusive, were approved, ratified, and confirmed.

Chairman Martin then called upon Mr. Craft for a statement with respect to the study of the scope and adequacy of the Government securities market, adding the comment that he planned to ask Mr. Craft to report at the next meeting of the full Committee to be held on June 19, 1952, so that all members of the Federal Open Market Committee would be kept fully informed of the progress of the study.

Mr. Craft referred to a letter sent out over Chairman Martin's signature on May 28, 1952, to dealers and other specialists in the U. S. Government securities market transmitting an outline of the scope of the study. He said that distribution of the explanatory letter and of the outline had been limited largely to persons or firms active in the business although copies had also been sent to all members of the Federal Advisory Council for their information. Mr. Craft went on to say that he had spent the first two days of this week in New York making arrangements with dealers to come to Washington to discuss the questions contained in the outline, and that meetings with dealers had been scheduled to start on the morning of June 9 and would continue at least through July 1, 1952. He said that the reactions of dealers generally were very favorable both from the standpoint of the comprehensiveness of the outline and as to the procedure which the subcommittee contemplated following in the study. Mr. Craft also said that the subcommittee was giving some consideration to preparation of another outline which would be suitable for dissemination to other investor classes such as insurance companies, savings banks, and State funds, and that this was one reason why it had seemed desirable to limit distribution of the outline sent out on May 28 primarily to securities dealers.

Mr. Craft then stated that it was intended to have a stenographic transcript of discussions with securities dealers for the use of the subcommittee and staff in preparing a report to the Federal Open Market Committee and that a question had arisen as to the extent to which this transcript would be available. He said that the letter sent out May 23 assured dealers that their comments would be treated in confidence, and in talking with them this week he had informed them that they would have an opportunity to talk "off the record" if they wished to do so. It was difficult to estimate the importance of the problem, Mr. Craft said, but from the standpoint of having frank and full discussions with the dealers, the subcommittee had considered whether they should be assured of anonymity in their comments, and the extent to which their statements should be treated as confidential.

Chairman Martin said it was clear that every member of the Federal Open Market Committee should have access to the stenographic transcript, that the real problem was how freely the subcommittee could expect dealers to talk if they were not assured that the comments would not be available to Mr. Rouse or others connected with the trading desk at the Federal Reserve

Bank of New York. The Chairman went on to say that he felt any criticism of the New York Bank operation should be made available to the Bank so that it would have a full opportunity to reply, and he emphasized that the Federal Open Market Committee had full confidence in Mr. Rouse and the New York Bank but that since the problem had arisen he would like to have a frank discussion of it because the subcommittee wanted to avoid stifling comments by any of the participants.

Mr. Craft stated, in response to a question from Chairman Martin, that in most cases dealers would approach the discussions in a constructive manner and would comment freely even though they knew such comments were to be available to the New York Bank, but that in some instances dealers might be under restraint if they had the impression their comments would be available to everyone at the New York Bank connected with the trading desk. As a result, such dealers would be much more guarded in discussing some of the problems being studied. Mr. Craft stated that he would like to have Mr. Rouse's reaction as to the importance of the problem and the way to meet it.

Mr. Rouse felt there could be no question but that the management of the Federal Reserve Bank of New York should have access to the entire record of discussions. So far as he personally was concerned in his capacity as Manager of the System Open Market Account, Mr. Rouse could see no necessity for either himself or any of his assistants knowing anything about the direct source of criticisms of the operation although he assumed the substance of such criticisms would be made available to him. He stated that many of the dealers felt entirely free to talk with him at the present time, that the study should deal constructively with any questions that might arise, and that this would be accomplished if the substance of criticisms of any of the New York Bank's operations were made available.

Mr. Sproul did not think it was a question of giving offense to the New York Bank or to any individual, stating that there would be no offense to the Bank no matter how the subcommittee decided to conduct the discussions with dealers. The important thing, Mr. Sproul said, was that the study of the subcommittee should be as full and complete as possible and should have the advantage of all information that could be gotten from dealers, from persons within the Federal Reserve System, or from others who had been intimately or more distantly concerned with open market operations. Mr. Sproul said that as he understood it, the full and complete record of discussions would be available to every member of the Federal Open Market Committee which meant it would be available to him so that there was no possibility of keeping information from the member of the Open Market Committee representing the New York Federal Reserve District and the New York Bank. In that sense, Mr. Sproul noted, there was no possibility of not having criticism of the New York Bank or its operations known at that Bank. Mr. Sproul went on to say that to the extent the New York Bank operation was subject to criticism he felt its representative on the Federal Open Market

Committee as well as the executive officer from that Bank responsible for the operation of the open market account should not only know what was said but also should know who said it. The argument against such procedure apparently was that some dealers might not talk as freely as they otherwise would in the fear that there might be some retaliation against them by the New York Bank. This, Mr. Sproul said, was offensive to him as chief executive officer of the New York Bank and to Mr. Rouse as Manager of the System Account. He felt that the subcommittee should not consent to an arrangement which would permit individuals complete anonymity in making statements which might influence the subcommittee in arriving at a recommendation to be made to the full Committee. If there were criticisms of the operation, Mr. Sproul said that he as a member of the Federal Open Market Committee and Mr. Rouse as Manager of the System Account should know of them, but this did not mean they would be available to individuals on the trading desk. He suggested, therefore, that the subcommittee make it clear to dealers that any comments made during the discussions would be available to himself as a member of the Federal Open Market Committee, and to Mr. Rouse as Manager of the System Open Market Account.

In response to a question from Chairman Martin as to whether this would apply to "off the record" comments, Mr. Sproul stated that this would depend on the definition of what "off the record" meant, that he considered that anything which might affect the final judgment of the operation should be fully available to all members of the Federal Open Market Committee. He doubted that assurance of anonymity would result in constructive comments, noting that dealers talked freely with him as a matter of course, and that they seemed to think that he might take action to correct situations of which they complained.

Mr. Craft stated that he agreed in general with Mr. Sproul, and that his only concern was that he wanted to create as much of an atmosphere of informality in the discussions as would be possible, that he felt almost without exception the approach of dealers would be objective and constructive, that Mr. Sproul and Mr. Rouse already knew which dealers might take a different approach, and that he was confident the discussions would not get into personalities with one or two possible exceptions. One of the dealers who had been most critical of the Federal Open Market Committee, Mr. Craft said, stated that he would be delighted to have the full Federal Open Market Committee as well as representatives of the Treasury present when he met with the subcommittee. Nevertheless, Mr. Craft felt it desirable to give participants an opportunity to talk "off the record", with the understanding that the members of the staff and the subcommittee would report to the full Committee accurately and completely the points covered in such discussions.

There was further discussion of the matter during which Mr. Sproul suggested that the subcommittee say to the dealers at the opening of the discussions that anything germane to the study and the solution of the problem would have to be made available to the members of the Federal Open Market Committee. On this basis, he would leave it to the judgment of the subcommittee to report to the full Committee everything that the sub-committee felt was pertinent to the study, whether "on the record" or "off the record". Offhand, he could forsee little necessity for disclosing names in connection with comments which were germane and pertinent to the study, but if the subcommittee felt the source as well as the substance of comments was pertinent, that would be a decision for the subcommittee to make.

Mr. Riefler noted that while there would be a stenographic transcript of the discussions with dealers, it was not contemplated that this transcript would constitute the "record" of the subcommittee study, the stenographic notes would be for the use of the subcommittee and the staff in preparing material to be brought to the attention of the full Committee, and it was not contemplated that dealers who met with the subcommittee would be given copies of the transcript for editing.

Mr. Sproul said that, so far as he was concerned, it did not matter whether the subcommittee maintained a complete stenographic transcript of the discussions or a partial transcript, so long as no commitment was made that what dealers said would not be divulged if the comment was pertinent to the study and in the judgment of the subcommittee should be available to the full Committee.

Chairman Martin suggested that, on the basis of the foregoing discussion, the matter would be left in the hands of the subcommittee which would determine and transmit to the full Committee what was germane to the study.

There was unanimous agreement with this suggestion.

Reference was also made to incidental costs in connection with the study, such as the stenographic reporter and perhaps for reimbursement of securities dealers for travel to Washington. Chairman Martin suggested that such costs might be handled in the same manner as reimbursement for Mr. Craft's expenses, which, as reported at the meeting of the executive committee on May 9, the Board of Governors had arranged to pay. There was no disagreement with this suggestion.

Chairman Martin then called upon Mr. Thomas who made a statement on the economic and credit outlook in which he said that recently the money market had been tight, that it looked as though the market would remain tight for the next week or so, and that recent figures on the banking situation indicated that more of an increase in the volume of credit was taking place than had been anticipated a few weeks ago.

Chairman Martin suggested that consideration be given to what recommendations the committee should make to the Treasury in its financing program, and in this connection referred to a memorandum prepared by Messrs. Riefler, Thomas, and Leach under date of June 5, 1952, with respect to immediate problems of debt management and Federal Reserve policies. Copies of the memorandum had been given to all members of the committee before this meeting.

At the Chairman's request, Mr. Riefler reported on a meeting with Treasury staff representatives last week at which it was indicated informally that the Treasury would need new money soon, that it was thinking in terms of a $3 billion intermediate-term issue of bonds early in July, and that they indicated strongly that most of the funds would have to come from banks. They also indicated that since banks were short of reserves it would be necessary for the System to make available such reserves as were needed in order to enable the banks to purchase the securities. Mr. Riefler stated that the conclusions that he and other members of the staff had come to were set out in the memorandum distributed before the meeting. They felt that if the Treasury sought new money early in July through issuing an intermediate bond, the System would have to furnish reserves to enable the banks to purchase such securities, but the manner in which this was done could be either inflationary or restrictive. It was important for the Federal Reserve to have freedom to act if needed later in the year when funds borrowed by the Treasury were disbursed and returned to the banking system; and it was felt that freedom of action would be seriously limited if another issue of the same kind as that contemplated by the Treasury early in July were to come along later in the year. Therefore, the staff had explored the possibility of the early July issue being large enough to get from $4 to $4-1/2 billion so as to encourage a market expectation that no other issue of the same type would be available this year, and thus to improve the market reaction to the issue. This would leave the Federal Reserve free to operate in the market if steps should be necessary during the last 5 months of the year to restrain further expansion in bank credit.

Mr. Sproul stated that it seemed to him the failure of the Treasury's recent long-term offering had eliminated the long-term market as a source of funds, for the moment, and this left as alternatives an intermediate bond, certificates, and regular or long bills. Whichever was chosen, or whatever combination was chosen to raise new money, must also take account of the Treasury's refunding needs which included 4 issues of 1-7/8 per cent certificates of indebtedness maturing on July 1 ($5.2 billion), August 15 ($600 million), September 1 ($1.8 billion), and October 1 ($10.9 billion). Use of a certificate, long bill, or regular bill to raise new money would create further congestion in the Treasury maturity schedule, overload the short-term market, miss a chance to temper the fall expansion of bank loans and the contribution to the "capital boom" of shifts out of long-term Governments which have recently become eligible for banks, and require an upward adjustment of short-term rates in order to assure success of such an issue, and this seemed unwise at this time.

Mr. Sproul said he realized that some market interests thought the Treasury had "missed the market" for an intermediate bond and that there was opposition at the Treasury to financing through banks for intermediate-term money. He did not think the Treasury had missed the market for an intermediate-term bond if it put out an issue attractive in terms of rate and maturity, and if there was a powerful underwriter in the person of the Federal Reserve System. Opposition to intermediate term financing through banks would be all right in time of all-out war when everything had been done to raise needed funds by taxation and borrowing from nonbank investors, but in present circumstances when failure to balance the budget at a time of high level income, and failure to raise nonbank money at a time of high level saving, had created the situation in which we now find ourselves, such reasoning seemed out of season. He felt, therefore, that the committee should suggest that the Treasury seek new money through offering an attractively priced intermediate-maturity bond, making a preliminary announcement immediately and later giving the final terms calling for payment preferably July 1. With respect to the amount, Mr. Sproul said he had not been thinking in terms of as large an issue as $4 to $4-1/2 billion, as mentioned by Mr. Riefler, but of an issue of $2-1/2 to $3 billion to meet only the needs of the Treasury until about October 1.

In a discussion of this question, Mr. Rouse said that while there was substantial demand in the market for an intermediate bond he did not believe the offering of the larger amount would remove the feeling in the market that there was still some substantial financing to be done this year. He felt the market would take an offering of from $2 to $3 billion; but an issue of $4 to $4-1/2 billion would have to be very attractively priced, and even then would require vigorous action on the part of the Federal Reserve to make reserves available, which would not be in accordance with the policy the Open Market Committee had been pursuing.

Mr. Hugh Leach said that many banks would like an intermediate bond, that the time to offer such a bond was before bank loans had increased further, and that this was an ideal time for as big an issue as the market would take, but that he could not say whether that would be $3-1/2 or $4-1/2 billion.

There followed a discussion of the amount of an intermediate bond offering that might be recommended to the Treasury and of the manner in which such offering might be announced. There was also a discussion of the refunding of maturing July 1 certificates of indebtedness. At the conclusion of the discussion, Chairman Martin suggested that Messrs. Riefler and Thomas prepare a letter based on the foregoing discussion which he could present to Secretary of the Treasury Snyder as a recommendation of the committee.

This suggestion was approved unanimously.

Secretary's note: The letter, which Chairman Martin handed to the Secretary of the Treasury on Monday morning, June 9, 1952, was as follows:

"The executive committee of the Federal Open Market Committee at its meeting this morning discussed the refunding of the July 1 certificates and the raising of new money to meet the cash deficit that is expected during the reamining months of the present calendar year. It was recognized that this financing poses major decisions since the amounts of new money required are huge and will fall on the market in a way that may lead to a resumption of inflationary pressures.

"It was agreed that it is of the utmost importance that the market be informed at the earliest possible moment of what is in prospect. Consequently, it is the suggestion of the committee that the Treasury announce promptly the type of issues and the amounts that will be offered, both to refund the certificates maturing on July 1 and also for new money. It is considered important to defer announcement of the coupons on these issues until the market has had time to evaluate the size and character of the offerings.

"With respect to the maturing certificates, the committee suggests that a certificate maturing June 1, 1953 be offered in exchange. With respect to new money financing, it is the unanimous view that an intermediate bond in the 5 to 8 year range with the proceeds payable through tax and loan account affords the best means of raising the amounts of new money that will be required.

"There was some difference of opinion with respect to the amounts of new money that should be sought on an issue of this type. One view was that the market would not take more than $3 billion at this time. If this is true, an additional issue or issues would have to be offered in August or September. Others felt that the market would take a larger issue and that from the standpoint of the entire debt-management problem for this year it would be better to make an offering for not less than $4-1/2 billion at this time. According to this view, the larger offering would indicate that no additional new money financing in this area is to be expected this year. It would thus encourage a fuller market response and would also reduce the financing task during the remainder of this year "to more manageable amounts. Both views recognize that the market must be given time to evaluate the securities and the amounts involved before it will be safe to establish coupon rates that can reasonably be expected to bring the necessary response.

"With respect to new financing later in the year, it is believed that tax anticipation bills, augmented by a long-term offering and possibly by net receipts on savings bonds, can be relied upon for a considerable volume of new money.

"I will be glad to discuss the details of these suggestions at your convenience."

Mr. Rouse stated in response to a question from Chairman Martin that no change was needed in the general direction to be issued 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 $2 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.

It was agreed that the date for the next meeting of the executive committee would be Thursday, June 19, 1952, on which day a meeting of the full Federal Open Market Committee would also be held.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary.