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, April 8, 1953, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Szymczak (alternate for Mr. Mills)

Mr. Vardaman, Member of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Ralph A. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. R. F. Leach, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee held in Washington on March 5 and March 24, 1953, 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 March 24 to April 2, 1953, inclusive. At this meeting Mr. Rouse presented a supplemental report covering commitments from April 3 to April 7, 1953, inclusive, and commented briefly on that report. 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 March 24 to April 7, 1953, inclusive, were approved, ratified, and confirmed.

Mr. Young summarized recent economic developments and commented on the near-term outlook. He referred to a memorandum on the subject dated April 6, 1953, copies of which were distributed before this meeting, stating that in preparing the memorandum particular attention had been given to the impact of the "peace offensive" on economic prospects. Mr. Young was impressed with the strength of the current economic situation. From the standpoint of the Government's fiscal outlook, success of the "peace" moves might affect both income and outgo and would not necessarily affect the outlook for a deficit. Consumer demand for goods is extremely strong and plans for buying this year are not likely to change materially in the absence of some major development which would have a marked impact on public psychology. If there should be a severe cutback in defense planning, some effect could be expected on business expenditures for plant and equipment. Business inventories, while large, were not showing any tendencies inconsistent with sales. In the price picture, which Mr. Young felt was perhaps the most vulnerable thing in the economic outlook, there had already been substantial declines in prices for agricultural products, most of which were now close to support levels. Any further declines in prices, which might be expected if crop production is large this year, would bring out extremely heavy Government expenditures under the support programs. Certain industrial prices, particularly metals, which had been at extremely high levels, were also showing weakness, Mr. Young said, and might decline. Because of expansions in industrial capacity since the close of World War II, there is some possibility of lowered costs of production of many industrial products which could well be a factor bringing pressure on prices, both at the wholesale and retail levels over future months. Key points to be watched in the outlook for the next few months included the automobile industry where production is currently at a rate of 7,200,000 passenger cars for the year; and other durable consumer goods industries such as refrigerators, freezers, and the like, where production has been above the high levels of a year ago, backlog demands are absent, and any peace settlements would follow several years of large-scale additions to consumer stocks and financial obligations.

Following a discussion of Mr. Young's remarks, Mr. Thomas commented on the credit situation stating that demands for private credit had continued strong, that loans and investments of banks other than Government securities had thus tended to increase, but that, because of the Federal Reserve policy of restraint, banks had met these demands for private credits by liquidating Government securities. Member bank borrowing had continued close to the high level reached in the latter part of 1952, and money rates had risen. The money market is tight now, Mr. Thomas said, and although temporary relaxation may be expected in mid-April as a result of the usual mid-month increase in float, the tendency will probably be toward continued tightness during coming months, unless there should be a marked easing of credit demands.

Chairman Martin stated that yesterday he received a telephone call from Mr. D. C. Johns, President of the Federal Reserve Bank of St. Louis, regarding the possibility of an increase in the discount rate of that Bank in view of the extremely strong business situation in the area. Chairman Martin said that he told Mr. Johns the executive committee would be meeting today, that inasmuch as a Treasury announcement of its refunding program might be expected at any time, this might not be a good time for an increase in the discount rate, but that if the directors wished to do so, the Board would be glad to receive any recommendation they cared to send in.

Mr. Erickson stated, in response to a question from Chairman Martin, that he was somewhat optimistic on the peace overtures, that if they developed satisfactorily he felt businessmen as well as consumers would revise their thinking as to the outlook, and that it was his judgment that no change in credit policy should be made at this time although he felt the situation was one which should be watched very carefully. Under present conditions, any action such as an increase in the discount rate or a change in open market operations might precipitate developments which were not intended. Mr. Erickson felt that in bidding for bills next week the System account should do about what was done last--bid marginally--and if System holdings were not replaced it would not be a serious matter.

Mr. Sproul stated he had much the same attitude as Mr. Erickson, that in view of the continuing boom in the domestic economy the System should continue to place pressure on banks and to resist an expansion in credit. At the same time, however, Mr. Sproul felt that particularly in view of the international situation it would not be appropriate to raise any "red flags" or to try to give a jolt to the economy. This would mean going along with the present open market program, probably offsetting the effect on the reserve position of the banks of such "natural" factors as an increase in currency circulation and a decline in float, and keeping member bank borrowing in a range around $1-1/2 billion. If demands on the reserve positions of banks growing out of Treasury and foreign transactions seemed to make the situation tighter than is desirable, it might also be in order to make some additional outright purchases of Government securities to offset reserve losses. This situation does not suggest an increase in the Federal Reserve Bank discount rate at this time, Mr. Sproul stated, adding that he was moved to some extent in his views by the difficult position of the Treasury, feeling that unless it was wholly inconsistent with what the Open Market Committee believed to be sound credit policy, the System should not place obstacles in the way of the Treasury program for meeting its substantial current cash and refunding demands. In summary, Mr. Sproul felt that the Committee should keep pressure on bank reserves, keep member bank borrowings somewhere in the range from $1 to $2 billion, and, if necessary, make some outright purchases of Government securities during the next quarter in order to keep about the present degree of pressure. He noted that nearly all signs in the economic picture were strong, that this was almost always the case in a boom period just before something important happened which could not be forecast, and that this suggested to him a special need for alertness to the need for possible changes in policy.

Chairman Martin asked what Mr. Sproul would have in mind with respect to placing bids for maturing Treasury bills next week, and Mr. Sproul stated that while he felt the marginal bidding this past week was appropriate, especially since, if a mistake were made, the System could buy bills to replace those they lost, it seemed to him that in the bidding next week it would be preferable to bid so as to be fairly certain of replacing maturing bill holdings. If the System should not replace its holdings, however, it should stand ready to purchase bills in the market up to the amount that would mature if that seemed desirable.

Mr. Szymczak raised the question of possible action to be taken by the Federal Open Market Committee in the event of a down-turn in the economic situation. His own feeling, he said, was that to the extent open market instruments of credit policy could be used flexibly and quickly, they could be helpful in resisting a down-turn, more so than other instruments of credit policy.

None of the members of the Committee disagreed with Mr. Szymczak's suggestion. Mr. Evans stated, however, that while he still felt the System had been a little too easy in its credit policies, if a time came when some easing action was called for, he would consider a reduction in reserve requirements as one of the first steps to be taken, partly because this would help to equalize the position of member and nonmember banks and, at the same time, would have widespread effects in resisting credit restriction outside central reserve cities.

Mr. Evans also said that, while the committee would not want to do anything to make the Treasury's financing task more difficult than it is, he felt too much attention was being given to this side of the picture. He would not be concerned about losing bills from the System account this next week, since the rapid expansion of credit going on in various fields did not support the contention that there was a tight money market, "tight" being only a relative term.

Mr. Sproul commented that Mr. Evans had referred at several of the recent meetings of the Federal Open Market Committee or its executive committee to his belief that the System had not been sufficiently restrictive in its credit policy. He could not understand just what was desired, he said, since in a growing economy it was expected that a growing amount of credit would be used and that, if the growth could be at a sustainable level, he could not see why credit should not be made available, assuming, of course, that the Committee would try to prevent unstable or inflationary conditions, from developing beyond the level of sustainable economic activity.

Mr. Evans responded that the problem seemed to be to determine what level of economic activity might be sustainable, and he did not consider the present level a sustainable one. He further commented that general controls could not restrict consumer credit or real estate credit in an effective manner and selective controls were needed as supplementary credit control tools.

Chairman Martin stated, after further discussion, that there appeared to be general agreement that open market operations should be continued in the immediate future on the same basis as at present, with the understanding that they would be directed toward as little change in the market as possible.

Mr. Sproul agreed, noting that this might call for some injection of reserve funds in order to offset losses from foreign transactions or other causes. He also felt generous use of repurchase agreements might be called for over the coming weekend. It also was noted that in bidding for bills next week it would be desirable to do so with a view to maintaining the present System holdings.

Chairman Martin referred to a draft of letter to be written to the Federal Reserve Bank of New York giving formal advice of the actions taken in connection with the report of the ad hoc subcommittee on the Government securities market, considered at the meeting of the Federal Open Market Committee on March 4 and 5, 1953. A draft of this letter had been sent to the members of the executive committee before this meeting. In the discussion that followed, Mr. Sproul suggested certain clarifying changes. Mr. Vest presented a suggestion which Mr. Robertson, member of the Federal Open Market Committee, had made prior to his departure from Washington yesterday with respect to the procedure to be followed when the executive committee took action to correct a disorderly situation in the Government securities market.

Following discussion, unanimous approval was given to the letter in the following form:

"This letter is written to give formal advice, for the guidance of the Federal Reserve Bank of New York in its capacity as the bank selected to execute transactions for the System Open Market Account, of the several actions taken by the Federal Open Market Committee at its meeting on March 4 and 5, 1953, with respect to the recommendations in the report of the ad hoc subcommittee on the Government securities market. This letter refers to all actions of the Committee in this connection, unless such action was merely to defer the topic or to direct that it be further studied, or unless it related to matters other than those concerned with transactions for the System account such as the understanding regarding relations with the Treasury, the study of the reestablishment of a call money post, or the revision in the weekly statement of condition of the Federal Reserve Banks.

"1. It was agreed that, under present conditions, operations for the System account should be confined to short-term securities (not including correction of disorderly markets).

"2. It was agreed that it is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

3. It was agreed that the general directive of the Federal Open Market Committee relating to transactions for the System open market account should provide henceforth that such transactions should be with the view, among other things, 'to correcting a disorderly situation in the Government securities market'. This change was reflected in my wire to you on March 5, 1953, transmitting to the Federal Reserve Bank of New York the directive approved at the meeting of the executive committee that day. The full Committee also agreed that intervention to correct such a situation would be initiated only upon the affirmative vote of the executive committee after the existence of a situation seeming to require correction had come to its attention through notice from the manager of the account or otherwise, but it was recognized that in the event of an emergency, such as an international crisis, it might not be possible to canvass all members of the executive committee before initiating such intervention.

4. It was agreed that, pending further study and further action by the Committee, the Committee should refrain during a period of Treasury financing from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.

5. It was agreed that the system of rigid qualifications for dealers with whom the open market account will transact business be abandoned, with the understanding that henceforth transactions would be carried on with persons or firms actually engaged in the business of dealing in Government securities, and that price would be the main criterion for such

"transactions. As a result of this action, the statement of terms approved at the meeting on February 29, 1944 and renewed from time to time since, and all subsequent instructions pursuant thereto, are rescinded.

6. It was agreed that having abandoned the technique of reluctant buying, which was used at times during the period of supported markets, it should not be resumed without further consideration by the executive committee of the Federal Open Market Committee.

7. It was agreed that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis, with the understanding that, if it seemed desirable to do so at some future time, the executive committee would consider a proposal to revert to an agency basis. (This action superseded the action of the executive committee at meetings on June 10, 1946 and on May 20, 1948 to the extent that those actions referred to transactions with dealers on an agency basis.)

8. It was agreed that, if rights were acquired during Treasury refundings, they be purchased from dealers without regard to whether or not they come from the dealers' positions. (While the Committee was in full agreement with the spirit of this recommendation, it was noted that it was inoperative at the present time in view of the action taken under No. 4, above, agreeing that, pending further study and further action by the Committee, it would refrain from purchasing rights on maturing issues during periods of Treasury financings.)

9. It was agreed that there should be no refusal to buy bills acquired by dealers on a cash basis.

10. It was agreed that non-bank dealers be informed adequately in advance when repurchase facilities will be made available, it being understood that the adequacy of the advance notice would depend on the availability of information indicating to the manager of the System open market account the need for such facilities.

"11. It was agreed that the individual morning dealer conference is not required, it being understood that if any dealers wished to continue the morning conference, it would be on the dealers' initiative.

12. It was agreed that information solicited by the trading desk from dealers be so restricted as to eliminate the possibility of identification, directly or by inference, of individual customers.

13. It was agreed that, if dealers were willing to furnish reports on individual dealer positions and activity on a voluntary basis, there would be no objection to continuing to collect the information in that manner, it being understood that if the reports received on a voluntary basis did not seem to provide satisfactory aggregates, further study would be given by the executive committee to the question of the reporting procedure.

14. It was agreed that the trading desk should avoid asking dealers to report transactions currently during the trading day in sufficient detail to permit the computation of current individual dealer transactions sheets."

Secretary's note: The letter was mailed to Mr. Sproul, as President of the Federal Reserve Bank of New York, on April 8, 1953, and copies also were sent to the Presidents of all other Federal Reserve Banks.

Chairman Martin then referred to a draft of statement to be issued to the press announcing the discontinuance of specified qualifications for dealers with whom the open market account would conduct transactions and after discussion, the statement was approved in the following form:

"The Federal Open Market Committee has discontinued, effective today, its requirement that transactions with the

"Open Market Account be confined to dealers in Government securities who meet certain specified qualifications. The requirement, adopted by the Committee in 1944 to meet war-time conditions, is no longer deemed necessary or desirable now that open market operations of the Federal Reserve Banks are divorced from support of any pattern of prices or yields in the Government securities market. Discontinuance of the requirement was recommended by the Open Market Subcommittee appointed in 1952 to make a technical study of the operations of the System Account."

There was also a discussion of the procedure for making the announcement, and it was understood that the details would be worked out by Messrs. Thurston and Rouse. It was also understood that the statement would be published in the Federal Reserve Bulletin, and Mr. Rouse noted that he would contemplate returning to the present qualified dealers their signed statements of agreement.

Secretary's note: Subsequently, it was arranged that Mr. Rouse would discuss the announcement with presently qualified dealers on Tuesday, April 14, and that the statement would be handed to the press for release on April 15, 1953.

Chairman Martin stated that in view of the fact that the revised minutes of the meeting of the full Committee held on March 4 and 5 were now ready for distribution, the Board would proceed with the inclusion in the weekly statements of condition of the Federal Reserve Banks of the figures relating to repurchase agreements, holdings of special certificates of indebtedness, and weekly averages of member bank borrowing.

Chairman Martin also referred to a suggestion which had been discussed informally at the meeting of the executive committee on

March 24 regarding the possibility of placing on a continuing basis certain outstanding authorities of the Federal Open Market Committee, which in the past had been reviewed at the organization meeting in March each year to see whether they should be continued for the ensuing year. He stated that it was understood that the full Committee would continue to review these authorities annually, at which time there would be furnished to the members of the Committee a memorandum summarizing the authorities, rather than, as had been the case in the past, excerpts from the minutes relating to the previous actions regarding the authorities.

In response to Chairman Martin's question, Mr. Rouse stated that no changes in the limits in the direction to be issued to the Federal Reserve Bank of New York were called for at this time.

Mr. Riefler stated that Mr. Robertson had suggested the deletion from the direction of the phrase which indicated that operations should be conducted, among other things, with a view "to correcting a disorderly situation in the Government securities market." Mr. Robertson's point was that while such direction should be given by the full Committee to the executive committee, it would seem unnecessary that it be given regularly to the New York Bank by the executive committee inasmuch as it had been agreed at the meeting of the full Committee on March 4-5, 1953, that, if a situation which seemed to require correction were to develop, it would be necessary for the executive committee, or at least available members of the executive committee, to act affirmatively on the matter before intervention to correct such a situation could be initiated. Mr. Vest stated, in response to a question from Mr. Sproul, that there was no legal reason why the phrase should not be deleted from the direction.

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 to exercising restraint upon inflationary developments, 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 System account (including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $1 billion.

It was agreed unanimously that the next meeting of the executive committee should be held on Friday, April 24, 1953, at 10:30 a.m.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary.