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 Tuesday, July 7, 1953, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Mills
Mr. Johns, Alternate for Mr. Erickson
Mr. Szymczak, Alternate for Mr. Evans

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. R. 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. Arthur Willis, Assistant Secretary, Federal Reserve Bank of New York
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 of the Federal Open Market Committee held on June 11 and June 23, 1953, were approved.

Before this meeting there had been sent to the members of the committee a report prepared at the Federal Reserve Bank of New York covering operations in the System open market account from June 23 to July 3, 1953, inclusive, and at this meeting Mr. Rouse presented a supplementary report covering commitments executed on July 6, 1953. Copies of both reports have been placed in the files of the Federal Open Market Committee. In commenting upon the reports, Mr. Rouse stated that net purchases of Treasury bills for the System open market account had totalled $427,550,000 during the period since the close of business on June 22, 1953, and he also called attention to the repayment by the Treasury of $992 million of special certificates of indebtedness which had been purchased direct from the Treasury for the account of the Federal Reserve Bank of New York. The result of these changes, Mr. Rouse noted, plus a small increase in securities held under repurchase agreements, was a net decrease of $548,450,000 in total Federal Reserve holdings of United States Government securities from June 23 to July 6, 1953, inclusive.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period June 23 to July 6, 1953, inclusive, were approved, ratified, and confirmed.

Mr. Thomas reviewed the economic and credit situation, presenting a summary of information contained in a staff memorandum on current economic and financial conditions dated July 3, 1953, copies of which were sent to all members of the committee before this meeting. After noting that economic activity was still at a very high level, Mr. Thomas pointed out that there were some signs of potential weakness in the situation. For example, latest figures of inventories show somewhat greater vulnerability in that factor in the event the rate of expansion in inventories continues or sales decline. Mr. Thomas also noted there was considerable uneasiness in connection with real estate markets -- although building activity actually under way continues at a high level, new contract awards showed some decline in June and there were many reports of difficulty in obtaining financing for large projects. In the credit area, Mr. Thomas said that there continued to be expansion in consumer credit, but that total bank credit expansion in June was much less than last year. Defense expenditures increased during June and the Treasury ended the fiscal year 1953 with a conventional budget deficit of $9.4 billion, or $5.4 billion on a cash basis, which was somewhat above earlier estimates. The bank reserve picture eased considerably during late June and early July.

Mr. Thomas presented projections of possible demands for credit stating that, assuming for the year 1953 as a whole a growth of 3 per cent in the privately held money supply, there could be an increase of about $8.5 billion in private demand deposits and currency during the rest of the year. In addition, Treasury deposits might be expected to increase above the current low level. Such an expansion would permit a growth in bank loans and other securities of about $6 billion, or the same as in the last half of 1952 and, in addition, an increase in holdings of Government securities at commercial and Federal Reserve Banks of $4.5 billion. The resulting increase in deposits would call for about $2-1/4 billion additional reserves during the second half of calendar year 1953, of which nearly $1.2 billion would be met by the decrease in requirements announced June 25. The remaining reserve needs, plus the normal currency growth, would require some $2 billion of Reserve Bank credit about equally divided between the third and fourth quarters of the year. Since member bank borrowings are down to about $250 million, moderate increases in such borrowings and in use of repurchase agreements could probably take care of any additional needs for reserve funds until the latter part of August. In late August and in September there might be a need for some resumption of outright purchases of securities for the System account, assuming a growth in credit demand at the pace indicated.

In commenting upon conditions in the Government securities market, Mr. Rouse said that the short-term market had been influenced primarily by the reduction in reserve requirements announced by the Board of Governors on June 25, together with continuing large purchases of securities for the System account. There had been some questioning of the size of purchases for the System account in view of the reduction in reserve requirements, Mr. Rouse said, and in response to such inquiries he had indicated that System purchases were based on apparent needs for the year as a whole rather than the immediate situation. Market transactions in Government securities continued in small volume, Mr. Rouse said, but the tone and temper of the market had become a good deal better during the past few weeks and is now good. He added the comment that the new Treasury issue of 2-1/2 per cent tax anticipation certificates due in March 1954 was well received, both on the part of the larger banks and numerous non-banking business organizations. In response to a question from Mr. Vardaman, Mr. Rouse said that the market anticipated a secondary market for the new Treasury securities based on demand arising from corporations because of depletion reserves, tax reserves, and other factors.

Chairman Martin suggested that there be a discussion of the general economic situation, adding that it was his impression that there was a feeling in some quarters that the Federal Reserve was now committed to a seemingly easy credit policy. He felt it was necessary to evaluate the importance of this sentiment, and he expressed the view that the System would not wish to "go over-board" on the easy credit side. Chairman Martin also stated that the handling of operations for the System account during the past two weeks had been carried on extremely well in that purchases had been made aggressively and actively as needed during this period.

Mr. Rouse said that he had been very pleased with the comments that had appeared in the press during the past two weeks which had been along the lines that Federal Reserve credit policy was one of keeping the situation rather tight but not letting it get tighter, and Chairman Martin said that the press comments had been more accurate than some of the views expressed by some of the more sophisticated members of the Government securities business.

Mr. Sproul stated that he felt the sophisticates in the Government securities business were trying to appear sophisticated, that they were trying to look beyond what is being said in the press or by the Federal Reserve and trying to find something the smarter people could find when those not so smart did not see things. There is a tendency, he said, for some of the members of the trade to feel that the Treasury has to finance a large deficit and that the Federal Reserve is back in the market supplying reserves solely to make that possible. Some of those people are not giving any consideration to other factors in the business and credit situation which were part of the background for System action. Mr. Sproul went on to say that he was under the impression that there is no widespread feeling that credit is going to be made easy under all circumstances, that in fact there is some indication that there is a tendency not to be thrown off balance by the immediate situation and the prospective situation in the next two to three weeks. There is a tendency to feel that with increasing private demands during the fall months, credit will not be too easily available and interest rates may stiffen. While the System is exposed to interpretations of having reversed its policy and of having gone into an easy money policy, Mr. Sproul did not think this was a general assumption. In commenting on Mr. Thomas' projections of near-term credit developments, Mr. Sproul said that the New York Bank also had made estimates based on about $5 billion of the $6 billion Treasury financing being taken by banks, and he cited figures of prospective gains and losses to the money market during the next two weeks. These estimates indicated considerable credit ease during mid-July but a substantial tightening in the reserve position of banks during the statement week ending July 22. From the money market standpoint, there would seem to be no need for System open market purchases, Mr. Sproul said, leaving only the question whether from the psychological standpoint the committee would wish to make token purchases of securities in this period to indicate that it was still interested in the market.

Chairman Martin expressed the view that some token purchases would be preferable to complete withdrawal from the market during the near-term future. At the same time, the account should be careful to avoid giving the impression that it was pouring any substantial volume of reserves into the market.

Mr. Mills felt that it was most important for the System account to continue to make some purchases in the market but on a very modest basis. If the account were to withdraw entirely from the market at this time, that action would lend support to interpretations to the effect that the reduction in reserve requirements was solely or primarily for the purpose of assisting the Treasury in its financing program.

Mr. Sproul felt there was much to be said for the position taken by Mr. Mills and, in response to a question by Mr. Robertson as to what "modest" purchases would be, Mr. Sproul suggested that it meant something more in the range of $25 to $50 million a week, in contrast with the more than $200 million a week that had been purchased since the last meeting of the executive committee.

Chairman Martin felt that the token purchases might come closer to the $25 million figure mentioned by Mr. Sproul and the latter said that he would hope so, that he would hope that the account would do as little as it could: it might be desirable and possible to make no purchases during the statement week ending July 15, although small token purchases would probably be desirable in the following week.

Mr. Mills said that the amount of token purchases should be left to the judgment of the management of the account, that possibly none would be needed in the coming week as suggested by Mr. Sproul.

During a further discussion of this question, Mr. Johns stated that he was in agreement with the view expressed by Mr. Mills to the effect that some token purchases would be desirable between now and the next meeting of the executive committee to counteract the impression that might otherwise be given that the Federal Reserve had been providing reserves recently solely for the purpose of assisting the Treasury.

Mr. Riefler said that as far as the money market was concerned, it would not seem necessary for the System to put any more reserves into the market until September except for the psychological factor that had been mentioned in connection with the proposed token purchases. His own preference would be to avoid making any purchases during the next statement week if that proved feasible.

At this point, Chairman Martin suggested that the next meeting of the executive committee be held at 10:30 a.m. on Tuesday, July 21, and all members of the committee agreed with this date, Mr. Sproul noting that he would be in California at that time and would be unable to attend the meeting.

Chairman Martin then raised the question as to the broader aspects of the program of the executive committee in carrying out the general policy of the Federal Open Market Committee.

Mr. Johns said that he could see no significant change in the general situation during the past month, that conditions described in the staff memorandum dated July 3, 1953, for the country as a whole were about as seen in the St. Louis District. None of the members of the committee expressed a view at variance with this statement.

In response to a question from Chairman Martin as to the limitations to be included in the directive to be issued by the executive committee to the Federal Reserve Bank of New York, Mr. Rouse suggested a limitation of $500 million would be sufficient for the next two weeks in both paragraphs 1 and 2 of the directive.

Mr. Riefler suggested that, in view of the program discussed above--that is, of making only token purchases of Treasury bills for the System account during the next two weeks--there should be deleted from the present directive the parenthetical expression indicating that purchases for the System account "in the near future will require aggressive supplying of reserves to the market". There was agreement with this suggestion.

Mr. Sproul said that he took it that the sense of the committee was that during the statement week ending July 15 the account should come as close as possible to making no purchases of securities, and that during the statement week ending July 22 purchases might be made in the $25 to $50 million range.

Chairman Martin concurred, indicating a preference that purchases during the second week be on the lower side of the figure mentioned by Mr. Sproul.

> Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the executive committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating

the supply of funds in the market to the needs of commerce and business, (b) to avoiding deflationary tendencies without encouraging a renewal of inflationary developments, and (c) to the practical administration of the account; provided that the total amount of securities in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than $500 million;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million.

Chairman Martin stated that Mr. Burgess, Deputy to the Secretary of the Treasury, had mentioned to him this morning the possibility of use by the Treasury of the gold now carried in the Treasury cash balance in the amount of approximately $1 billion.

At Chairman Martin's request, Mr. Youngdahl commented on possible uses of the gold by the Treasury, stating that the principal reasons for the Treasury's desire to use the gold appeared to be to delay reaching the $275 billion debt limit and to reduce interest costs to the Government. Mr. Youngdahl mentioned several possible methods of using the gold which would be objectionable from the standpoint of the Federal Reserve System on the grounds that their use would result in the Treasury's furnishing reserves to the market, thus usurping a function of the Federal Reserve System. One possible method which would avoid the placing of reserve funds in the market by the Treasury and which would enable the Treasury to accomplish its objective of retiring some outstanding debt and eliminating interest costs on such debt, would be to use the gold to retire securities held by the Federal Reserve Banks. While this use of the gold would result in an increase in gold certificates held by the Federal Reserve Banks and in the System's reserve ratio, Mr. Youngdahl did not feel that this would be objectionable.

There was a general discussion of this question during which Chairman Martin stated that he did not seek any recommendation or conclusion from the committee although it appeared to be the consensus that if the Treasury were to decide to use the gold the procedure adopted should be one which would not result in supplying reserves to the money market.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary.