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 Friday, November 6, 1953, at 11:18 a.m.

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

Mr. Robertson, Member of the Federal Open Market Committee

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Mr. R. A. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Gaines, 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 of the Federal Open Market Committee held on October 20, 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 open market operations for the period from October 20 to November 2, 1953, inclusive. At this meeting there was also presented a supplementary report covering open market operations during November 3-5, 1953, inclusive. Copies of the two reports have been placed in the files of the Federal Open Market Committee.

Mr. Rouse supplemented the reports with comments as to possible conditions in the money market through the statement week of November 18 and said that anticipated pressures on bank reserve positions might result in the bill rate working up somewhat during that period.

> After a discussion, upon motion duly made and seconded, and by unanimous vote, the transactions covered by the two reports referred to above were approved, ratified, and confirmed.

Mr. Young reviewed recent economic developments as set forth in a memorandum prepared in the Board's Division of Research and Statistics under date of November 5, 1953, copies of which had been sent to the members of the committee before this meeting. A copy of the memorandum has also been placed in the files of the Federal Open Market Committee. He also commented that recently there had been a sharp rise in business failures to a level, on a seasonally adjusted basis, equal to the peak in 1949.

Mr. Thomas commented on conditions in the money market, stating that privately-owned deposits had increased in October by more than a seasonal amount and more than in the same period last year. This had occurred even though the increase in bank credit, and particularly in bank loans, had been much smaller than last year, and was due to a reduction in Treasury balances. The Treasury deficit, financed by borrowing and withdrawals from balances, in recent months had supplied a substantial portion of private monetary demands. Deposit expansion since April had been of about the usual seasonal proportions but with no provision for overall growth in the economy. Expansion of currency had been somewhat less than the usual seasonal growth and thus the drain on reserve funds had been smaller than had been provided for by System projection.

He also said that the easy conditions existing in the market during the latter part of October were now disappearing very rapidly, that free reserves undoubtedly would be reduced during the coming statement week in which payment for the new Treasury issue would have to be made and there would be other drains on the market. It was possible, he said, that excess reserves and member bank borrowings might be about in balance next week in the absence of further purchases by the System. In the following week a mid-month increase in float would ease the situation considerably. It was his thought that thereafter there would be accumulated pressures on the market which would call for $500 or $600 million of additional Federal Reserve credit to hold the levels of borrowing and excess reserves about equal. If the additional credit were supplied entirely through the medium of Federal Reserve Bank borrowings and repurchase agreements, the bill rate undoubtedly would go higher, perhaps to as much as 1-3/4 per cent, unless there was some reduction in the rate on repurchase contracts.

Mr. Sproul referred to earlier discussions with respect to the sale to the Treasury of securities from the System open market account as a means of giving the Treasury some relief in its problem of operating within the statutory debt limit. He said that until yesterday the Treasury had not reached a definite conclusion as to what it might wish to do but that the Secretary had now come to the conclusion that, in order to put the Treasury in a safe position with respect to the debt limit and to provide some leeway in the event of possible further increases in the debt during the next few weeks, he would like to purchase from the System against gold at the market $500 million of 2-1/8 per cent notes maturing on December 1, 1953, which would then be retired. Mr. Sproul added that the sale to the Treasury of securities by the Federal Reserve Banks for credit in the gold certificate fund, which would have no effect on the reserve position of member banks, had been indicated in the discussions of members of the Open Market Committee as the manner in which the transaction should be carried out.

In this connection, Mr. Sproul referred to a memorandum from Mr. Solomon which had been sent to the members of the committee under date of November 2, 1953, in which it was stated that there was legal authority for the sale by the Federal Reserve Banks and purchase by the Treasury, that the transaction need not legally or necessarily be at prices current in the market, and that further action by the Federal Open Market Committee was not required for the transaction but that action would have to be taken by the executive committee to enlarge its directive to the Federal Reserve Bank of New York to effect the transaction.

In a discussion of whether the sale should be at par or at the market all of the members of the executive committee with the exception of Mr. Evans were of the opinion that the transaction should be at the market, especially in view of the Treasury's proposal that the transaction be conducted at market prices.

> At the conclusion of the discussion, it was agreed unanimously that the directive to be issued during this meeting to the Federal Reserve Bank of New York to conduct System open market operations should be enlarged to authorize the sale to the Treasury of December 1 notes against gold at the market in an aggregate amount of not to exceed $1 billion face amount.
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> It was understood that the Presidents of the Federal Reserve Banks who were not present at this meeting would be informed by wire of this action.

Mr. Sproul stated that Mr. Burgess, Deputy to the Secretary of the Treasury, planned, in the event the proposed sale were approved by the executive committee, to come to the Federal Reserve building at 12:30 p.m. today to discuss the details of the transaction and that it would be completed either today for delivery on Monday or on Monday for delivery on that date.

In a discussion of transactions that might be effected in carrying out System open market policy during the period before another meeting of the executive committee, it was agreed unanimously that the next meeting of the committee should be held at 10:45 a.m. on Monday, November 23, 1953.

Mr. Sproul then inquired whether there should be any change in the understanding reached at the meeting of the executive committee on

October 20, 1953, that no change should be made in the manner in which the policy approved by the full Committee on September 24, 1953, was being carried out but that, depending upon developments, some small judicious direct purchases of Treasury bills might be justified.

Reference was made in this connection to the question whether, in anticipation of further tightening in the money market, any action should be taken looking to a reduction in the rate on repurchase agreements. Mr. Sproul expressed the view that such action would be undesirable at this time for the reason that the needs of dealers were being taken care of at the existing rate, that a reduction in the rate might be interpreted as indicating a policy of further ease and of a possible reduction in the discount rate of the Federal Reserve Banks, and that a reduction was uncalled for as long as the present rate was not interfering with the market. He was of the opinion that during the last two weeks in December when the market would be faced with year-end adjustments, there might be a good case for a reduction in the repurchase agreement rate for a temporary period.

After a discussion of this point, it was suggested that while it probably would be a good thing for the bill rate to increase somewhat as a reflection of the normal seasonal pressures it would be unwise for the rate to increase to as much as 2 per cent. Mr. Sproul agreed with that view stating that such an increase would probably be an indication that reserves were becoming less readily available than the economic situation would justify.

During this discussion Mr. Johns withdrew from the meeting.

Mr. Mills referred to the fact that the weekly bill auction and the payment for the new issue of Treasury securities would take place on Monday, November 9, and he raised the question whether any action might be called for to keep the bill rate from rising too drastically. It was the consensus that there would not be a wide movement in the bill rate on Monday and that based on current reports from the market it probably would not go beyond 1.38 per cent or 1.40 per cent.

Mr. Sproul then suggested that, pending the next meeting of the executive committee, it be understood that repurchase agreements would be made freely available at the present rate, and that there would be such outright purchases of Treasury bills as might be necessary to offset other factors in the market so as to maintain as far as possible the existing market situation recognizing, however, that there might be some increase in the bill rate resulting from market pressures but that the increase should be relatively minor. In the event the bill rate should tend to approach the discount rate, it would be regarded as an indication that the market was tighter than intended and that further outright purchases would be desirable.

> There was unanimous agreement with Mr. Sproul's suggestion and, 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, 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;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of 2-1/8 per cent Treasury notes maturing December 1, 1953, as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $1 billion face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary