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 Monday, November 23, 1953, at 10:45 a.m.

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

Messrs. Robertson, Szymczak, and Vardaman, 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. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York.

Chairman Martin suggested that inasmuch as Mr. Rouse had been delayed in reaching Washington, Messrs. Young and Thomas proceed with a review of the economic and credit situation, following which the report of operations in the System account since the last meeting would be considered.

Mr. Young stated that the slow slippage in the business activity, which has been under way since early summer, appeared to be continuing, but he noted that business and financial sentiment apparently has become more hopeful as earlier expectations of substantial declines in activity and prices have not been realized. Mr. Young then commented on several key economic developments substantially as reported in a staff memorandum dated November 19, 1953, copies of which had been distributed before this meeting.

Mr. Thomas said that since October 28, the banking figures had been dominated by the effects of the new Treasury financing and that after allowance for that influence, demand for private credit had been less than is customary at this season of the year. Government deposits increased by over $1-1/2 billion whereas private deposits decreased by about $1 billion at banks in leading cities, indicating rather large purchases of securities by holders of private deposits. The Federal Reserve System has had to supply less reserves than had been expected, Mr. Thomas said, something like $100 million having been furnished through outright open market purchases and some additional reserves having been supplied through repurchase contracts and member bank borrowings. Mr. Thomas commented on the factors expected to be operating to affect the level of bank reserves during December and January, stating that on the basis of the projections through the week of December 23, and assuming that the volume of excess reserves might be kept about $100 million above member bank borrowings, purchases by the System account of around $300 million to $500 million probably would be adequate, some of which would be needed in the next two weeks. Following Christmas, there would be a return flow of currency of $800 million or more which would have to be absorbed. In sum, it looked as though a relatively small volume of

System operations would be called for in connection with the seasonal and year-end demands for credit.

During Mr. Thomas' comments Mr. Rouse joined the meeting.

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 November 6, 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 November 6 to November 18, 1953, inclusive, and at this meeting there was distributed a supplementary report covering open market operations on November 19 and 20, 1953. Copies of the two reports have been placed in the files of the Federal Open Market Committee.

After noting that the supplementary report showed a net increase in repurchase agreements of $44.5 million since November 18, Mr. Rouse commented with respect to preliminary indications as to results of the Treasury's exchange offering of securities for the 2-1/8 per cent Treasury notes due December 1, 1953. He also commented that there is a substantial demand for short-term securities from business and public corporations, stemming from the proceeds of capital issues and interior sources of funds. Mr. Rouse said that the demand, which was concentrated in American Telephone and Telegraph Company because of its $605 million debenture offering, presumably would continue for several weeks.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period November 6 to November 20, 1953, inclusive, were approved, ratified, and confirmed.

Mr. Erickson stated that the economic outlook appeared to him to be about as Mr. Young had outlined it. In New England, the textile industry is an unfavorable factor, he said, but on the other hand some lines such as jewelry are extremely active. Construction is still running well ahead of last year and 1953 as a whole probably will exceed the 1952 volume. Department store sales have been good despite unseasonably warm weather. Demand for credit is slack and loans in Boston have declined although they have increased slightly in other parts of the First District.

Mr. Rouse commented briefly on a meeting of representatives of the Investment Bankers Association with Treasury officials which he attended last week, stating that most of them were looking for a reduction in bank loans of about 5 per cent during the next six months; they also felt there would be a fairly sharp reduction just before the end of this year and immediately after its close, which might reflect repayment of loans made in part for excess profits tax purposes.

Chairman Martin said that it did not appear that the year-end credit stringency would be as great this year as had been anticipated. There would, however, be some need for additional funds, and he asked for comments as to how these needs should be met.

Mr. Riefler felt that the seasonal needs would be greater than the System would wish to meet through discount operations alone, which would leave the way open for some direct purchases of securities for the System account in addition to use of repurchase agreements. Mr. Riefler also said that the two per cent rate on repurchase agreements seemed high at present, and he raised the question whether that rate should be set below the discount rate and whether repurchase facilities should be extended to bank dealers in securities as well as nonbank dealers. He recognized that the question of a rate for dealers which was lower than that offered to banks presented something of a problem. With respect to extending repurchase facilities to bank dealers, Mr. Riefler suggested that such dealers may be sufficiently a part of the market to justify offering them repurchase facilities on an experimental basis.

Mr. Szymczak noted that the question of a rate lower than the discount rate was not necessarily new since in the past the rate on repurchase agreements had been below the discount rate.

Mr. Mills was doubtful about moving the rate on repurchase agreements below the discount rate since it might provoke a charge of preference to nonbank borrowers at the Federal Reserve. As to whether bank dealers in Government securities should be admitted to the privilege of repurchase facilities, the suggestion raised the question whether such banks might use repurchase facilities to their advantage in commercial operations. Mr. Mills' feeling, he stated, was that the situation pointed toward the desirability of immediate acceleration of purchases of Treasury bills for the System account. He then made a statement substantially as follows:

Currently excess reserves are in over-all easy supply but due to the seeming unevenness of their distribution, the market as seen through the availability of Federal funds gives evidence of relative tightness. This tightness shows up in erratic day-to-day movement in the Federal funds rate.

A search for the causes of this situation suggests:

1. That excess reserves tend to be concentrated in country banks which, as a class, do not employ their surplus funds fully or as promptly as they become available. In result, the excess reserves of country banks do not serve as an important supplier to the market except as they reach it through correspondent bank balances.

2. That the demand for Federal funds probably comes most insistently from those reserve city and central reserve city banks that are most heavily loaned up.

Open market policy recognition of this situation over the next two weeks might reasonably lean further to "active ease" than has been true of the immediate past or, in other words, moderate outright purchases of Treasury bills might be resumed in accompaniment with such provision of repurchase agreement facilities as occasion demands.

These actions would, first of all, signal to the market and give reassurance that there need be no change in its reasonable supposition that reserves will be in adequate supply to support the approaching year-end demands for credit and particularly the flotation of the new issue of C.C.C. certificates of interest and the American Telephone and Telegraph Company and General Motors Corporation debenture issues, all of which will be offered concurrently with substantial offerings of municipal and utilities securities.

Such action would serve the still more important purpose of easing the reserve positions of those metropolitan banks who, having previously followed aggressive lending policies, now find themselves loaned up and less able to participate in the financing field. Allowing that by and large those banks have been aggressive but not reckless lenders, and allowing that the economy is falling into a position that needs the encouragement of reasonable credit stimulation, the leadership of the aggressive school of bank lenders should be capitalized upon through open market policy. As indicated, it is recommended that this be done by making reserves more freely available at the point where they will do the most good, namely, through judicious outright purchases of Treasury bills, whose reserve effects together with the reserve effects of repurchase agreements and discounts will lubricate the market at a possible point of stickiness. To be sure, under this policy the

> over-all supply of excess reserves, especially when float is high, may become so abundant as to result in short periods of market ease. However, the longer range benefits of the policy are believed to offset its shortcomings and, in any event, should the market tend to overease it is subject, if desired, to the almost automatic correction inherent in the increase in currency in circulation that it is anticipated will gather momentum from Thanksgiving on through the Christmas holiday period.

In response to a question from Chairman Martin as to the magnitude of bill purchases he had in mind, Mr. Mills went on to say that if authority were given along the lines he had suggested, he would feel that the authorization for purchase of bills should be in general terms. The management of the open market account should understand that purchases should be moderately liberal so that, coupled with repurchase agreements, they would supply funds to the market in the amount that would give it the tone and feeling that would be helpful. Mr. Mills thought that a minimum of $25 million during the current statement week should be purchased.

Mr. Rouse stated that during the past three weeks the System had put $110 million into the market through outright purchases and that repurchase facilities at times had been used to the extent of $200 million. He also said that, in view of the volume of reserves already provided, he had had in mind letting the normal month-end reduction in float pull reserves out of the market, not buying any securities this week for System account, and letting repurchase facilities go off or go on as dealers wished. As Mr. Mills had said, excess reserves are unevenly distributed in the market; however, the atmosphere of the market is easy although New York and Chicago banks are relatively tight. Some dealers have reported difficulties in getting cheap money to carry securities but by and large dealers have been functioning satisfactorily during recent weeks. Mr. Rouse added the statement that, aside from Mr. Mills' suggestion of a definite instruction to make outright purchases for the System account, he would be in accord with the general program Mr. Mills had outlined.

Mr. Mills said that it was his thought that a moderate purchase of securities for the System account would be desirable this week, particularly in view of the influence of the holiday rise in demand for currency and the desirability of giving assurance to the market that following the Thanksgiving week, System policy would be such as to provide adequate reserves. If no action were taken this week, it would mean that the weekly statement to be published Friday of this week would show that no outright purchases had been made for the System account for two full weeks, a factor which might have an undesirable influence in the market.

Mr. Erickson felt as Mr. Mills did. He was hesitant to reduce the repurchase agreement rate for the reasons Mr. Mills had indicated and said that he would prefer to use outright purchases for the System account along with repurchase agreements in providing funds. On this latter point, Mr. Erickson said that he would put in funds early rather than waiting, and he felt some purchases should be made during the current week.

Chairman Martin stated that when the committee started on its program of "active ease", it was thinking of a continuous operation in supplying reserves rather than having them supplied with too much "jerk".

If the policy of active ease is to be continued, he thought there was merit in having some steady purchases made for the System account. He noted, however, that the System would be subject to criticism by some people if purchases were made at this time on the grounds that the market was already too easy.

Mr. Johns stated that he was in substantial agreement with Mr. Mills' statement. He wondered whether the projections on which the committee was basing its analysis included an allowance for reserves that might be needed to meet the growth factor in the economy, and if not, whether the committee wouldn't be justified in including some such allowance.

Mr. Thomas said that while this factor was not specifically allowed for, he did not feel that it would be sufficiently large for a period of a few weeks to affect materially the projections prepared by the staff.

Mr. Youngdahl commented that the staff projections of reserves that would be needed were in the nature of minimum figures since they did not allow for growth as Mr. Johns had suggested.

Chairman Martin stated that the committee had been using as a rule of thumb a figure of a growth of about three per cent a year. If business held about as is, interest rates would remain approximately at present levels; if business improved materially, interest rates could be expected to rise; and if business declined, interest rates would decline.

While there were difficulties in guaging operations in the period ahead, he felt that the various factors would tend to balance out so that the projections which had been presented to the committee by Mr. Thomas earlier in this meeting could be used as a rough guide. The Chairman added the comment that in his opinion there would be a rather drastic repayment of loans after the end of the year, more than was projected in the staff estimates. Entirely apart from this, he said, he felt that the approach suggested by Mr. Mills was sensible. The committee had been following a program of active ease. It had been told by different persons that the market had become too easy. On the whole, however, Chairman Martin felt that the System should not risk a period of stringency developing near the end of this year, and that it would be sensible to supply reserves at this juncture. If the account were to encourage a little tightening in the market, that should not be done until after the turn of the year.

Mr. Evans stated that the proposal of Mr. Mills seemed logical to him. He felt the committee should pursue a program of active ease at this time. It was also his view that after the first of the year the committee should take steps to reduce the System portfolio by selling securities whenever it had an opportunity to do so. Between now and the end of the year, however, he would favor purchases of securities in accordance with the program of active ease.

Mr. Rouse stated that he assumed the general approach indicated would not take away from the idea expressed at an earlier meeting that, toward the end of this year, the main reliance should be on a combination of repurchase agreements and borrowings.

Chairman Martin stated that this was correct, but that the committee in the meantime felt that there should be some outright purchases of securities for the System account.

Mr. Rouse stated that he would be in agreement with this understanding and would not be in disagreement with some outright purchases this week, that some could be made tomorrow in the regular course.

Mr. Evans reiterated the view that he would favor putting some funds into the market at this time through outright purchases, rather than relying entirely on repurchase agreements and discounts.

Messrs. Szymczak and Robertson both agreed with the approach indicated by the foregoing discussion.

Mr. Riefler suggested that purchases of more than $25 million might be needed this week since otherwise the System account might find it was making only token purchases, especially in view of the fact that heavy demands for reserves would take place early in December and again just before Christmas.

Mr. Rouse felt that the amount of the purchases was not so important immediately as the fact that some purchases would be made along the lines of Mr. Mills' suggestion.

Chairman Martin responded that it was important that the System be in the lead, that he felt it should follow a program of active ease, that it would be better for Mr. Rouse to err on the side of putting in a little too much rather than of putting in too little. It was his view that the committee wanted to make sure that it did not have a "reversing operation" as a result of a sudden tightening that it had not anticipated. Chairman Martin felt it would be better to put the funds in now and, if necessary, withdrew them later on.

All of the members of the committee concurred in the foregoing statement by Chairman Martin.

Mr. Evans referred to the earlier discussion of the rate on repurchase agreements, suggesting that it might be desirable to ask someone to look into the question of the rate and the possibility of extending repurchase facilities to bank dealers in securities. During a brief discussion that followed, Mr. Rouse expressed the view that as window-dressing by banks developed in the second half of December, there would be a good case for lowering the rate on repurchase agreements for nonbank dealers. He would, however, think a long time before applying repurchase facilities to bank dealers. Such action would, he noted, require action by the Federal Open Market Committee.

At Chairman Martin's suggestion, it was understood that the questions that had been raised regarding repurchase agreements would be considered at the meeting of the full Committee to be held on December 15, 1953.

With respect to the directive to be issued to the New York Bank, Mr. Rouse stated that he had no suggestion for a change in the limitations contained in the first and second paragraphs of the directive issued at the meeting on November 6, 1953.

In a further discussion, it was agreed that the third paragraph of the directive issued on November 6 should be modified to authorize direct sales to the Treasury from the System account of Treasury certificates maturing February 15, 1954 in an amount not in excess of $500 million, such securities to be sold for gold certificates, and such sales to be made as nearly as practicable at the prices currently quoted in the open market.

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, 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 2-1/4 per cent Treasury certificates maturing February 15, 1954, 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 $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

Messrs. Szymczak and Robertson withdrew from the meeting at this point.

Mr. Rouse then referred to the suggestion made earlier in the meeting that the System account might be reduced after the end of this year. He stated that because of the type of buying going on in the short-term market, a reduction in the account would be facilitated if some of the short-term securities presently held in the account were to be swapped for Treasury bills which could be permitted to run off during January. Mr. Rouse went on to say that there is a substantial demand for Federal securities at this time, that the System account could sell some of its certificates and notes that are in demand, and that it could replace them with Treasury bills. He anticipated that there would be a situation during the next month where such swaps could be made, and he commented to the effect that the American Telephone and Telegraph Company (which is offering a $605 million debenture issue) will be buying bills but that it also will be buying certificates and bonds. If such a procedure were agreeable, he said, he would like to take advantage of any opportunity to switch from some of the short-term securities into bills.

Mr. Riefler stated that such transactions would have to be within the definition of "short-term" securities and Mr. Rouse responded that this would be the case, that going as far as December 2's of 1954 would take care of what he had in mind.

In response to a question from Chairman Martin, Mr. Mills stated that such a procedure seemed logical to him.

Chairman Martin stated that the more bills the account acquired, the better off it would be, and that the procedure suggested by Mr. Rouse seemed to him to be satisfactory. He suggested, therefore, that in approving the directive, it be with the understanding that the New York Bank was authorized to proceed in accordance with the foregoing discussion.

> Thereupon, Mr. Rouse's suggestion was approved unanimously with the understanding that any such transactions would be limited to swaps of short-term securities now held in the System account.

Mr. Rouse then stated that he assumed the instruction of the committee regarding these transactions for the System account would be in terms of the general directive adopted at this meeting, that they were to be with a view "to the practical administration of the account".

Chairman Martin stated that this was correct.

It was agreed that the next meeting of the executive committee would be on Tuesday, December 15, 1953.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary