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 Tuesday, December 15, 1953, at 2:18 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Mills

Messrs. Fulton, Johns, Powell, Robertson, and Szymczak, Members 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. 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

Messrs. Leedy, Williams, and C. S. Young, Alternate Members of the Federal Open Market Committee

Messrs. Bryan, Earhart, and Leach, Presidents of the Federal Reserve Banks of Atlanta, San Francisco, and Richmond, respectively

Mr. W. D. Gentry, First Vice President, Federal Reserve Bank of Dallas

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 23, 1953, were approved.

Chairman Martin stated that there had been some question raised as to the degree to which operations for the System account since the last meeting of the executive committee had carried out the intent of the committee in pursuing a program of "active ease" in the money market.

Mr. Rouse stated that at the meeting on November 23 there had been reference by Mr. Thomas to an assumption that the volume of excess reserves might be kept about $100 million above member bank borrowings. Another suggestion had been that of Mr. Mills who had expressed the view that a minimum of $25 million should be purchased during the current statement week. Mr. Rouse noted that the committee had given no instruction as to the use of such figures in authorizing that a program of active ease be followed. He went on to say that a strong tone and feeling existed in the market. Banks were expecting a sharp decline in loans after the turn of the year and funds would then be available for long-term investment. The whole atmosphere of the market, Mr. Rouse said, has been and is one of confidence as far as the money market is concerned. He added that substantial swings would occur in the market, that estimates of the reserve position while fairly accurate over a period of time could not forecast day to day movements accurately, and that it was extremely difficult to base day to day operations on such estimates. While he could not attempt to be precise in maintaining a specific figure of free reserves, it was Mr. Rouse's feeling that the market has had broad confidence and that operations for the System account had carried out the policy indicated by the executive committee.

Mr. Mills expressed the view that the confidence to which Mr. Rouse referred should be nourished in the committee's operations, and that such nourishment should be in the form of providing the market with reserves without undue dependence on the use of repurchase agreements.

Mr. Rouse commented that this view was looking to the future, whereas he had been referring to the situation that had existed during the past few weeks.

Mr. Mills then questioned how Mr. Rouse would know what the timing should be in buying bills in the future, to which Mr. Rouse responded that the criterion would be largely the attitude of the dealers--whether they wished to take on more bills or not. Mr. Mills questioned the adequacy of this criterion which would be basing operations for the account wholly on the feeling of adequacy of the market itself and not acting in terms of open market policy.

There followed a discussion of the question of winnowing the consensus of the committee, as to the proper execution of open market policy, from the individual views which might be expressed by members of the Committee or its staff. At the conclusion of the discussion Chairman Martin stated that he felt the discussion had served the purpose of clarifying the atmosphere in what was at all times a difficult operation.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period November 23 to December 14, 1953, inclusive, were approved, ratified, and confirmed.

Chairman Martin then turned to the question of the instructions that should be issued by the executive committee to the Federal Reserve Bank of New York in the light of the decision of the full Committee today that the over-all policy to be pursued should be one of actively maintaining a condition of ease in the money market.

Mr. Riefler stated that in accordance with the change made in the directive from the full Committee to the executive committee, it would be in order for the executive committee to change clause (b) of its directive to the New York Bank from the existing wording "to avoiding deflationary tendencies" so as to read "to promoting growth and stability in the economy by actively maintaining a condition of ease in the money market."

Mr. Rouse stated that he saw no need for changing the limitations in the directive at this time. He also said that he would assume that there would be a meeting of the executive committee before it was necessary to make a decision on whether holdings of bills maturing January 7, 1954 should be permitted to run off or whether they should be rolled over into the new issue.

This question was discussed briefly and there was agreement with Mr. Sproul's suggestion that unless the estimates of free reserves in the market after the turn of the year proved to be substantially inaccurate, it would be contemplated that holdings of bills maturing January 7, 1954 should be permitted to run off. It would be understood, however, that, if necessary, the matter would be checked further with the members of the executive committee by telephone about the first of the year.

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 promoting growth and stability in the economy by actively maintaining a condition of ease in the money market, 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.

It was agreed that the next meeting of the executive committee would be held at 10:45 a.m. on Tuesday, January 5, 1954.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary