A meeting of the Federal Open Market Committee was held on Wednesday, April 24, 1957, at 10:00 a.m. This was a telephone conference meeting and the location of each individual is indicated in parenthesis after his name in the following list of those in attendance:

PRESENT: Mr. Martin, Chairman (Washington)
Mr. Hayes, Vice Chairman (New York)
Mr. Allen (Chicago)
Mr. Balderston (Washington)
Mr. Leedy (Kansas City)
Mr. Shepardson (Washington)
Mr. Szymczak (Washington)
Mr. Williams (Philadelphia)
Mr. Irons, Alternate for Mr. Bryan (Dallas)

Mr. Treiber, Alternate Member (New York)

Mr. Riefler, Secretary (Dallas)
Mr. Thurston, Assistant Secretary (Washington)
Mr. Hackley, General Counsel (Washington)
Mr. Solomon, Assistant General Counsel (Washington)
Messrs. Marget and Young, Associate Economists, (Washington)
Mr. Roelse, Associate Economist (New York)
Mr. Rouse, Manager, System Open Market Account (New York)
Mr. Carpenter, Secretary, Board of Governors (Washington)
Mr. Sherman, Assistant Secretary, Board of Governors (Washington)
Mr. Miller, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors (Dallas)
Mr. Larkin, Assistant Vice President, Federal Reserve Bank of New York (New York)
Mr. Anderson, Financial Economist, Federal Reserve Bank of Philadelphia (Philadelphia)

Chairman Martin said that this was not in any sense a crisis meeting or an emergency meeting. It was a meeting to bring the members of the Committee up to date, brought about by the fact that during the past week Under Secretary of the Treasury Burgess had been expressing considerable alarm about the state of the Government securities market in connection with the Treasury financing just ahead. The Chairman said he thought it desirable to have an informal discussion at this time so that the Manager of the Account, who was not present at the April 16 meeting of the Committee but who was ably represented by Mr. Larkin, would have clearly in mind the sense of that meeting. Chairman Martin then read a portion of the statement that he had made at the meeting on April 16, as recorded on pages 28 and 29 of the minutes of that meeting.* He concluded his statement with the comment that the only suggestions at the April 16 meeting as to maintaining a specific level of net borrowed reserves were those contained in comments by Messrs. Mangels, Deming, and Szymczak, who mentioned figures of $400 and $500 million. The Chairman said that the statement he had just read summed up the problem Mr. Rouse was dealing with. The Treasury had a difficult pricing problem, and the System account had a difficult problem of not misleading the Treasury. Chairman Martin stated that the Committee should not let panic develop in the market if there was any way to maintain an even keel and to continue the type of credit operation that seemed to be called for.

Mr. Hayes said that he felt it desirable to have this meeting because there were new developments since the April 16 meeting that raised rather difficult questions for the Account Management, problems that were difficult to resolve without going back to the Committee.

* Refers to mimeographed copy. In typed copy, reference should be made to pages 33, 34, and 35.

Specifically, while a net borrowed reserve figure was not set as a target at last week's meeting, the consensus generally was to keep approximately the degree of restraint that had existed during the preceding three-week period. Since April 16, developments had made the Treasury financing seem to be more of a problem than was then visualized, and at the same time there had been factors that had reduced the visible measures of restraint. Mr. Hayes then asked that Mr. Rouse comment on the situation.

Mr. Rouse stated that when he returned to New York on Monday of this week after an absence of about ten days he found the situation quite different from that which existed at the time he left New York. He also felt that the current situation was different from that presented to the Committee at the April 16 meeting. His understanding of the Committee's decision at that meeting was that it endorsed fully the atmosphere of the preceding three weeks and desired that it be continued for the next three weeks. The remainder of Mr. Rouse's statement was substantially as follows:

> Although no specific guides were established, it was of course in everyone's mind that net borrowed reserves and member bank borrowings had been relatively high--averaging over $600 million and over $1 billion, respectively. The projections for the succeeding period were for a continuation of the same levels; little attention was focused on the Treasury's immediate problem.
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> The first talk I had on Monday morning, aside from a preliminary talk with Mr. Larkin, was with Mr. William Heffelfinger of the Treasury who indicated that because of the Treasury's concern over market conditions in relation to its impending refunding operation, he had been instructed

by Mr. Burgess to reduce the balances which the Treasury carries at the Reserve Banks by $150-200 million, and that presumably Mr. Burgess, himself, would speak to me about it later in the day when the Under Secretary would be in New York.

Mr. Hayes and I saw the Under Secretary Monday afternoon and he confirmed his intention of reducing the Treasury's balances with the Reserve Banks. In his view a part of the increase in net borrowed reserves had been due to a rebuilding of these balances after the middle of March. He said that it was his opinion that the Treasury could not have a successful refunding when a considerable portion of the securities to be refunded were held by commercial banks if these banks were heavily in debt and under pressure by the System to get out of debt. The Treasury people understood that it might be unwise for the System to take overt action to reduce net borrowed reserves but that if the Treasury balances were reduced it would be taken in stride and that net borrowed reserves of around $400 million and member bank borrowings of under $1 billion, in his opinion, would not scuttle monetary policy but would facilitate his refunding problem. I made it clear both to Mr. Heffelfinger and Mr. Burgess that I thought that the Treasury should not engage in such an open market operation.

There are certain other matters I should mention:

On Monday there crystallized a loss of confidence in bond values particularly in municipal and government securities which probably had been in the making for several days.

It then developed that there had been an extraordinary expansion of float on Thursday that reduced net borrowed reserves to less than $300 million which carried over the week end.

On top of this development, the railway express airport strike affecting a number of important financial centers suggested a further substantial increase in float--by how much I don't know, but it could run an additional $200 million.

It is the conclusion of the market that the Treasury's exchange offering will be a failure even though the Treasury puts a reasonably attractive coupon on a one-year security or a six-month security. Attrition of at least 25 per cent is expected as of now. Prices of other securities in the market are expected to move down to meet the rate on the new offering.

In partial explanation of the market's attitude, the dealers reflect the attitude that the System did not validate the Treasury's cash offering and provide the necessary reserves through outright purchases. Market opinion doesn't necessarily have to make sense or be consistent with past positions. It is just current opinion but as such, influential. It also says that the number of available underwriters, i.e., dealers and banks, is steadily dwindling.

I share the Committee's concern as to misleading the market and shall do my best to avoid that result. However, there is one further matter that I should mention. The Treasury now feels that, as a result of System policy, it must confine the maturity of its refunding to under six months, thus adding to our problems in the autumn; furthermore, if the Treasury suffers a very heavy attrition, it will mean cash financing sooner than expected representing a further compounding of our problems.

In the light of what I understand to have been the position taken by the Committee a week ago and the present statistical position of the banking system, i.e., average net borrowed reserves this week of under $400 million, perhaps we should sell Treasury bills to offset the Treasury's action. I think we should not do so in the face of the Treasury's impending financing. On the contrary, it might be wise to extend some repurchase agreements to dealers today. All outstanding repurchase agreements ran off yesterday. Unless we do something today, our statement for the current statement week will show a decline in our holdings.

Chairman Martin referred to the possibility of a failure of the Treasury's financing, stating that he did not understand that Mr. Rouse was suggesting that the System should make the issue a success by buying it.

Mr. Rouse stated that he did not intend to imply that the System should buy the issue but that his statement did imply that the Treasury might have to come to the market again soon. He had no thought of the System's buying rights or doing anything of that sort.

Mr. Hayes summarized his view with the statement that he believed the Committee should give revised instructions to the Manager of the System Account. It should be well agreed that, unless the general tone of the market improved, the Manager would not sell securities at this time to offset the action of the Treasury in putting reserves into the market and the fortuitous developments in float. The Manager of the System Account should feel free to let the net borrowed reserves figure be what it may within reason, and he should not feel that he had to take offsetting action in the way of selling securities. Similarly, a little after the Treasury's announcement was made, if it would help the financing to be a success the System Account should be able to make repurchase agreements available to dealers, even though at the time the net borrowed reserves figure was fairly small statistically. This was on the assumption, of course, that the tone of the market had not improved by that time.

Speaking in more general terms, Mr. Hayes said that what was needed was a considerable degree of leeway to the Manager of the System Account who should be guided by the behavior and the feel of the market. Similar authorizations had often been given in the past and in this particular case it seemed to Mr. Hayes desirable that the Committee give specific consideration to such authorization because of the conditions that were developing and that could not have been foreseen at the April 16 meeting. If the Treasury should have a failure of its offering of the magnitude that Mr. Rouse had mentioned (25 per cent attrition or more) that could mean a scuttling of the Committee policy of restraint. Mr. Hayes suggested that the Manager of the System Account should have leeway to the extent necessary to try to help the Treasury's financing within the reasonable limits of the policy of credit restraint.

Chairman Martin commented that, in his opinion, that degree of latitude was implied in the directive agreed upon April 16. However, he understood fully Mr. Rouse's desire to have this point clarified so as to eliminate the element of judgment as to whether he was exceeding the policy directive. The Chairman said that he believed the Committee would have to give maximum discretion to the Manager of the System Account, but it did not wish to lose the credit policy for the sake of helping the Treasury, even if the Treasury should have a failure.

Mr. Hayes concurred fully in this statement, adding that the Committee must adhere to its basic policy. However, he believed there was considerable leeway within that policy that would permit the Committee to operate so as to avoid greater difficulties later on.

Chairman Martin agreed with this view, adding that the Committee should not be swayed too much by the Treasury's difficulty and the caterwauling of some of the syndicates that were in difficulty.

Mr. Allen said that the substance of the comments of Chairman Martin and Mr. Hayes as to pursuing the operating policies the Committee had had for several years was most important. The results of the Treasury's financing operations in recent years had been bad. It was Mr. Allen's view that what the Treasury wanted now was to have the central bank "bail it out." He felt that if the System were to do this it would be at the expense of the country and this, of course, would not be the right thing for the System to do. Mr. Allen suggested that the Treasury was "control minded" but he hoped that the Committee was "market minded" rather than "control minded." Speaking specifically, Mr. Allen agreed with what Mr. Rouse had said to the effect that we should not be concerned that net borrowed reserves at the moment were less than any target mentioned at the meeting last week. This was a temporary situation and did not call for precipitate action to cure it. The Treasury was independent just as was the Federal Reserve; some of the things the Treasury did made the System's job more difficult. Mr. Allen did not propose to complain about Treasury action however difficult it might make things for the Committee, just as he did not think the Treasury should complain of Committee action in pursuing Committee objectives.

Mr. Balderston agreed with Mr. Rouse's suggestion for taking such measures as would keep the market on an even keel without losing sight of the restraint that the Committee was trying to preserve for the long run. To him, the Treasury's problem was secondary to the Committee's primary responsibility. Nevertheless, it was something that should not be minimized. The responsibility for a Treasury failure would certainly be shared by the Committee, Mr. Balderston said, especially if any overt action were taken by the Account that would precipitate a psychological crisis in the securities market. Consequently, he believed that at this particular juncture the

Trading Desk should have leeway to do the things that were indicated. He would not attempt to compensate for the temporary float situation.

At this point Mr. Hayes reported on a bulletin concerning the securities market this morning, and Chairman Martin commented that on the whole the market seemed to be a pretty orderly one.

Mr. Shepardson stated that he realized the difficulty of side line coaching and he would not attempt to say in detail what the Manager of the Account should do. His general thought was that it was highly important that the Committee not lose sight of the basic credit objectives. He realized the Committee's responsibility to provide as stable a situation as possible for the Treasury but did not think this extended to bailing them out of a situation. Mr. Shepardson referred to the comment Mr. Rouse had made that the number of dealers or underwriters was dwindling. He suggested that this might reflect the situation that had developed upon a number of occasions in the past when, after helping to make a favorable market situation for the Treasury, the Committee tried to get back to its credit policy and found that it created a situation that caused a decline in the price of the new security. Mr. Shepardson thought that the Committee should recognize the unexpected ease resulting from float, but it should maintain as nearly as possible the degree of restraint discussed at the meeting last week. The economy generally was no less optimistic today than at that time, he said, and he would favor putting the Committee's credit policy strongly on the line, doing what might be necessary to avoid unforeseen tightening, but not taking steps to help ease the Treasury situation.

Mr. Szymczak thought that the Committee was faced with the practical problem of ease that had been created by the float situation. How long the ease would continue depended on the strike of express company employees. None of us could tell how long the strike would continue, and the Treasury must proceed to make its plans for the refunding. On the one hand, Mr. Szymczak said that he did not feel that we should deviate from the policy adopted at the meeting last week. On the other hand, he did not feel we should be selling securities in the light of the present practical situation. We should make repurchase agreements available, but we should not add to reserves by buying because that might create a more difficult situation for the Treasury; nor should we sell in the market. Mr. Szymczak said that he would play by ear, depending on the judgment of the Manager of the Account to deal with the situation in the light of the policy adopted at last week's meeting.

Mr. Williams said that he was concerned about the Treasury's problem. The Committee should not lead the market, but in its actions should bear in mind the possibility of heavy attrition on the Treasury issue. It seemed to Mr. Williams that the Manager of the Account should have latitude in making repurchase agreements, and he felt this could be given without departing from the general Committee policy. If the Committee permitted conditions to get too tight at this stage it might build up trouble for itself later in the year.

Mr. Irons said that the Committee's primary responsibility was appropriate credit policy from the standpoint of the economic situation. He saw nothing in that picture that would change his view of policy from that discussed at the meeting last week which called for a degree of restraint. In fact, Mr. Irons felt that the economic picture was showing improvement or gradually increasing strength rather than a tendency toward increasing weakness. We were dealing with an inflationary danger that might get away if there were definite easing. Mr. Irons said that he was not concerned with the net borrowed reserve figures and he had stopped using them. He was concerned with the degree of tightness in the market as measured by the behavior and feel of the market. A decline in net borrowed reserves of $100 or $150 million because of a rise in float would not concern him and he would not interfere to offset that position for a day or two. He was concerned by the nature of the problem implied by the Treasury's actions in opening up another arm of open market operations. He doubted if this was the time to oppose that action by sales of securities from the System account, but he felt this was something to be discussed fully by the Committee. As for the Treasury's position, Mr. Irons did not feel that prior to the announcement of the refunding the Committee should deviate from what it regarded as a necessary and desirable credit policy for an economic situation that was tending to be inflationary. If the Treasury offered a security priced in line with the market and if the Committee's credit policy was appropriate, then it might have a responsibility to "see the Treasury through." This, however, was not the present situation. Summing up, Mr. Irons said that the comments Chairman Martin had read from the minutes of last week's meeting would reflect his judgment. The Committee should maintain a degree of tightness. He understood that the Manager of the Account must be given some leeway to operate on the basis of feel or behavior of the market and not as reflected by some figure of net borrowed reserves. He was not concerned about the net borrowed reserves figure going to $400 million instead of $700 million.

Mr. Leedy said that the comments of Mr. Irons represented his views. He thought the decision at last week's meeting would permit the kind of approach that Mr. Rouse had outlined. Mr. Leedy would not be too much concerned about the statistical ease appearing as a result of float, nor would he offset what the Treasury had done in the way of reducing its balances at the Reserve Banks. Repurchase agreements might serve a purpose, but Mr. Leedy said that he would favor staying completely out of the market as far as purchases and sales were concerned for the moment. There should be no departure from the basic policy of restraint.

Chairman Martin said that he felt this discussion had been quite helpful in bringing out the views of the members of the Committee. He then called upon Mr. Rouse.

Mr. Rouse commented that perhaps we had seen the worst of the situation on Monday of this week. This meeting had served the purpose of indicating that he would not be violating the Committee's policy by not offsetting the Treasury's operations. The net result of the discussion this morning gave him the discretion needed to do what had to be done, Mr. Rouse said, although he indicated that this would be a difficult period. He would try to keep the market as tight as possible in the circumstances, and he gathered that this was what the members of the Committee wished.

Chairman Martin said that he thought this was correct.

Mr. Hayes noted that one or two members of the Committee had spoken about the Treasury having created its problem, indicating that it was not the Committee's responsibility to help the Treasury out of a situation that it had gotten into. Mr. Hayes said that there was something to this comment, but at the moment the Treasury was not talking about the rate; it was talking about the difficulty of making any refunding operation a success regardless of the rate because of the degree of tightness in the market. Mr. Hayes said that to him this meant that while the Committee should hold to its general policy of restraint without any question, there might have to be some shading.

Mr. Williams said that this reflected the thinking he was trying to express in his comments a few moments earlier.

Chairman Martin said that he felt the Committee's posture should be clear at all times that it wished to do everything it could to help the Treasury in its problem short of sacrificing credit policy responsibility. He felt that the problem had been well summarized at this discussion and stated that we would have to rely on the good judgment of the Management of the Account.

Mr. Allen referred to his earlier comments on the Treasury's attitude and to Mr. Rouse's comments on what he referred to as the Treasury's "open market operations." Mr. Allen went on to say that he would not be disposed to criticize the Treasury for these operations. The Committee had its responsibility and the Treasury had its responsibility.

Chairman Martin said that he thought this subject was one that should be discussed at another meeting of the Committee.

Mr. Hayes stated that this discussion had been very helpful and that the New York Bank was prepared to give its attention to carrying out the Committee's wishes.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary