A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, November 14, 1951, at 10:05 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Gidney
Mr. Gilbert
Mr. Leedy
Mr. Norton
Mr. Powell
Mr. Szymczak
Mr. Vardaman
Mr. A. H. Williams

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Bopp, Irons, Thompson, Tow, and John H. Williams, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Riefler, Assistant to the Chairman, Board of Governors
Mr. R. A. Young, Director, Division of Research and Statistics, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Ralph F. Leach, Economist, Division of Research and Statistics, Board of Governors
Mr. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York
Messrs. Hugh Leach, C. S. Young, Bryan, and Earhart, alternate members of the Federal Open Market Committee

Messrs. Erickson and Peyton, Presidents of the Federal Reserve Banks of Boston and Minneapolis, respectively

Mr. Attebery, First Vice President of the Federal Reserve Bank of St. Louis

> Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 4, 1951, were approved.

> Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee held on September 25 and October 4, 1951, were approved, ratified, and confirmed.

A report of open market operations prepared at the Federal Reserve Bank of New York covering the period October 4, 1951 to November 7, 1951, inclusive, had been sent to the members of the committee before this meeting. Mr. Rouse presented a supplementary report covering commitments executed November 8-13, 1951, inclusive, and commented briefly on both reports. Copies of the reports have been placed in the files of the Federal Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period October 4, 1951 to November 13, 1951, inclusive, were approved, ratified, and confirmed.

Before this meeting there had been brought to the attention of each member of the Committee a report of examination of the System open market account as of August 24, 1951, made in connection with the regular examination of the Federal Reserve Bank of New York and submitted by the examiner in charge for the Board of Governors. The report took no exception to the handling of the account and stated that the accounting procedures, records, and system of internal control maintained and the degree of care exercised by the Federal Reserve Bank of New York in connection with the System open market account were reviewed and continued to be regarded as satisfactory.

> Upon motion duly made and seconded, and by unanimous vote, the report was received and ordered filed.

Mr. Thomas stated that the economic situation had not changed greatly since the meeting of the Committee on October 4, 1951, and that the situation was still one of equilibrium at a high level of activity. This situation, he felt, was likely to continue during the next few months, but longer-run prospects still pointed toward inflation, primarily because of continued expansion of Government expenditures in connection with the defense program. Mr. Thomas said that Government expenditures on a cash basis would total approximately $58 billion in 1951, and were expected to equal or exceed $80 billion in fiscal 1952 and to reach $84 billion in fiscal 1953, when they should begin to level off. He estimated that during the fiscal year 1952 cash receipts would approximately equal expenditures, but that in the calendar year 1952 and also in the fiscal year 1953, the deficit was likely to be around $5 billion on a cash basis or $10 billion on a budget basis.

Mr. Thomas went on to say that the outlook was for private capital expenditures to continue at a high level, although housing construction might be expected to decline from recent levels depending on supplies of critical materials and ability to find substitutes, as well as upon demand which would be influenced by credit restraints. He felt that inflationary pressures during the next few months should be less than in the past year, although consumer demands might be expected to continue in excess of current output resulting in some drawing down of inventories of durable consumer goods. Incomes probably would continue to grow, reflecting increased economic activity and further advances in wage rates, and savings would have to be large if further inflation were to be avoided, which raised the questions (1) how to keep savings large, and (2) how to attract them into Government securities.

As to credit prospects, Mr. Thomas indicated that expansion in the last half of 1951 was running less than in the corresponding period of 1950, and that further growth in the money supply would depend on bank holdings of Government securities and Treasury borrowing from nonbank investors. On the whole, Mr. Thomas felt that savings institutions would have increased funds to invest and smaller acquisitions of mortgages and hence might be buying rather than selling Government securities; that corporations might also add to their holdings of Government securities, although purchasing less during the next year than in the past; and that individuals would have large savings. If funds could be attracted from institutions and individuals, very little need for bank purchases of Government securities should develop. All of this could be done and still provide adequate financing for business and housing. In connection with Mr. Thomas' remarks, there was distributed a memorandum, Projection of National Product and Income through 1952, prepared in the Board's offices under date of November 14, 1951.

In response to a question from Chairman Martin, Mr. John H. Williams stated that the country had been having a serious inflation with a balanced Federal budget and that it should not be concluded that further inflation from Government spending would necessarily be avoided by any particular combination of taxes and suitable offerings of Treasury securities. Mr. Williams said that he was coming to feel increasingly that the military program might be too large and might be moving too rapidly.

Chairman Martin stated that, as requested at the meeting of the full Committee on October 4, the executive committee met yesterday afternoon for the purpose of considering the memorandum prepared under date of September 28, 1951 by the Research Committee on Government Finance on how the defense bond program could be strengthened. The executive committee was in general agreement with the study, Chairman Martin said, and recommended that the report with minor revisions on pages 6 and 9 be sent to Secretary of the Treasury Snyder with a letter which would state that while the Committee felt that the problem was an important one and should have prompt consideration, it had come to no final conclusion as to the steps that should be taken and that it would be glad of an opportunity to discuss the matter with Treasury representatives or to be helpful in any other way that it could. The reason for emphasizing prompt consideration, he said, would be that the Committee recognized that there were limitations on when a new savings bond drive could be started, that the present drive was just coming to an end, that the results of the drive had not been too successful, and that it would take time to obtain funds and personnel and otherwise to revitalize the savings bond program.

Chairman Martin went on to say that he had discussed the matter with Secretary Snyder this morning, expressing to him in general the views of the executive committee, and that, while Secretary Snyder was thoroughly receptive to any ideas for improving the savings bond program, he emphasized that he was in the "middle of the stream" at the moment, noting such problems as going to Congress for the necessary funds to finance the program, and the desirability of consulting with the savings bond field staff if there were to be a change in the program in order to have the benefit of their suggestions concerning both the type of bond and changes in sales technique that might make it more effective.

Chairman Martin then asked for comments by all of the members of the Committee and the other Presidents of Federal Reserve Banks who were present as well as Mr. Attebery. Various ideas were expressed, including the suggestion that although the savings bond program was a smaller part of the total problem of Government financing, it was important not only in a dollar sense but in terms of its psychological effect and as a means of attracting funds of small investors that otherwise would go into inflationary channels. It was suggested that a thorough effort should be made to work out an effective program through collaboration with the business community and otherwise. It was generally agreed that changes in savings bonds, particularly in redemption schedules for early years but also in the over-all yield, would be highly desirable in order to make the bonds more competitive with other outlets for savings, and that a revitalized method of selling the bonds was needed in the light of developments since the present series were first issued in 1941. Differing views were offered as to whether savings bonds should be made eligible as collateral for loans, at least to a limited extent, and as to the merits of marketable as compared with nonmarketable bonds. With respect to the suggestion in the memorandum prepared by the Research Committee on Government Finance that some form of tax exemption for small holdings of savings bonds would make them more attractive, different views were also expressed, some feeling that tax exemption was objectionable in principle while others felt that a program which would have a negligible effect on tax revenues would be desirable if it served to make savings bonds more attractive as a medium for investment of savings which were accumulating at a rapid rate.

During the discussion Mr. Sproul commented that an attempt should not be made to separate the savings bond program from the longer-term debt management program, that both were necessary parts of a general program designed to raise the funds needed to finance the Government, and that the Federal Open Market Committee should now do the same thing for marketable securities that it had done with respect to savings bonds, i.e., work out a program for long-term market financing in terms of improving the debt schedule and getting the needed funds in the next calendar year in the way that would best fit the needs of sound debt management and credit policy. He felt that a study should be made of that problem on the basis of which suggestions could be made to the Treasury with respect to the debt management policies to be followed during the latter part of 1952.

At the conclusion of the discussion, Mr. Sproul suggested that the recommendation of the executive committee as presented by Chairman

Martin earlier in the meeting be adopted, i.e., that the memorandum prepared by the Research Committee on Government Finance, revised to include changes suggested by Mr. Youngdahl at the meeting of the executive committee, be transmitted to Secretary of the Treasury Snyder with a letter in a form which he outlined.

> Upon motion duly made and seconded, and by unanimous vote, Mr. Sproul's suggestion was approved with the understanding that the letter should be sent in a form satisfactory to Messrs. Martin and Sproul.

In connection with Mr. Sproul's proposal that a study be made of the problem of long-term market financing, Chairman Martin suggested that the Research Committee on Government Finance be asked to make this study also, and that Mr. Thomas be requested to work with the Committee. Mr. Sproul added a further suggestion that the Presidents of the Federal Reserve Banks make inquiries in their respective districts as to the prospects for available long-term funds and possible solutions of the problem of long-term market financing and that they send whatever information they might be able to develop to the Committee on Government Finance for its use in making the study.

> Upon motion duly made and seconded, the above suggestions were approved unanimously, with the understanding that since the problem of debt management was primarily a Treasury responsibility, the Presidents in making their inquiries would make it clear that the Federal Open Market Committee was merely seeking the best advice it could get in order to be as helpful to the Treasury as possible in finding a solution for this problem.

Chairman Martin then referred to a memorandum on Treasury cash requirements, prepared by Messrs. Thomas, Youngdahl, and Leach under date of November 9, 1951, copies of which had been sent to all members of the Committee before this meeting. He stated that the executive committee would be glad to have comments from any member of the full Committee concerning the recommendation that should be made to the Treasury as to the refunding of approximately $1,100,000,000 of partially tax exempt bonds called for payment on December 15, 1951.

No suggestions were offered, other than those contained in the memorandum referred to above, and it was agreed unanimously to continue the understanding at the last meeting of the Committee that the executive committee would be authorized to submit recommendations to the Treasury concerning both refunding and new financing needs.

Chairman Martin stated that toward the end of November a recommendation would be made to the Treasury, in the light of conditions existing at the time, with respect to the December refunding.

> It was agreed unanimously that there should be no change in the present understanding that the executive committee would determine, within the limits of the general direction to be issued at this meeting by the full Committee to the executive committee, the basis upon which transactions should be conducted for the System account in bills and other short-term securities.

In a discussion of the basis upon which operations should be conducted in longer-term securities, Mr. Rouse referred to the existing understanding of the executive committee that in conducting orderly market operations the Federal Reserve Bank of New York would not permit the longest-term restricted Treasury bonds to decline below 96-3/4. He also referred to the understanding at the meeting of the full Committee on October 4, 1951, that operations in longer-term securities should be conducted with a view to maintaining orderly market conditions. It was his view that in the light of existing conditions it should be the policy of the Committee to conduct its operations on the basis of the accord reached with the Treasury last March and that if long-term bonds should decline below 96-3/4 in response to market influences they should be allowed to do so as long as the movement was an orderly one.

> There was unanimous agreement with Mr. Rouse's statement and it was agreed that the executive committee would be guided accordingly.

In a discussion of policy that might be applied to operations after the turn of the year when there would be an easing of the money market resulting from a substantial return flow of currency from circulation and other factors, it was the unanimous view of the Committee that it would be appropriate for the executive committee to direct sales of securities from the System account as freely as possible to withdraw reserves from the market and at the same time to maintain an orderly market.

> Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously with the understanding that the limitation contained in the direction would include commitments for the System open market account:

> The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary, in the light of current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; provided that the aggregate amount of securities held in the account at the close of this date other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury shall not be increased or decreased by more than $2,000,000,000,
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> The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of 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 in the account at any one time shall not exceed $1,000,000,000.

Chairman Martin referred to the drafts of replies to two questions addressed by the Subcommittee on General Credit Control and Debt Management (Patman Subcommittee) of the Joint Committee on the Economic Report to the Chairman of the Federal Open Market Committee, copies of which had been distributed to the members of the Committee before this meeting. He stated that he and Vice Chairman Sproul would be glad to have at this time, or to have submitted in writing, any comments or suggestions which any of the members of the Committee might wish to make in connection with the drafts of replies.

It was agreed that the next meeting of the Committee would be subject to call by the Chairman and that in the absence of unforeseen developments a meeting would not be called until after the first of the New Year.

Thereupon the meeting adjourned.

S. R. Carpenter

Secretary.