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 Thursday, September 25, 1952, at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Bryan
Mr. Earhart
Mr. Evans
Mr. Hugh Leach
Mr. Robertson
Mr. Vardaman
Mr. C. S. Young

Mr. Riefler, Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Mitchell, Rauber, Roelse, Wheeler, C. W. Williams, and R. A. Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. R. F. Leach, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Willis, Assistant Secretary, Federal Reserve Bank of New York

Messrs. Erickson, Gidney, Johns, and Powell, alternate members of the Federal Open Market Committee

Messrs. A. H. Williams, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Philadelphia, Kansas City, and Dallas, respectively

Mr. Peterson, Director of Research, Federal Reserve Bank of Minneapolis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 19, 1952, 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 June 6, June 19, July 22, and August 29, 1952, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the Committee on July 22, 1952, revising the conditions under which the Federal Reserve Banks are authorized to enter into repurchase agreements with non-bank dealers in United States Government securities, was approved, ratified, and confirmed.

Before this meeting there had been sent to all members of the Committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period June 19 to September 19, 1952, inclusive. At this meeting, Mr. Rouse presented and commented briefly on a supplementary report covering commitments executed on September 22, 23, and 24, 1952. Copies of both 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 June 19 to September 24, 1952, inclusive, were approved, ratified, and confirmed.

A review of the economic situation and credit outlook, including a projection of gross national product and income through 1953, was then presented by members of the staff of the Board of Governors of the Federal Reserve System. A memorandum prepared in the Board's Division of Research and Statistics under date of September 23, 1952 on the projection of gross national product and income was distributed before the meeting, and a copy of the script used in the visual presentation has been sent to each member of the Committee.

Following the review of the economic situation, Chairman Martin reported on developments since the meeting of the Committee on June 19, stating that the general policy of neutrality which resulted in placing some restraint on credit expansion had been interpreted by the executive committee as meaning that only such reserves should be supplied to the market as were consonant with normal growth in the economy and which would maintain the money flow so that the defense effort and the business community were not unduly hampered. In carrying out this policy, the Chairman said, the executive committee had done everything that it could to assist the Treasury in its financing, consistent with a minimum growth in bank credit. In this connection, he stated that he had asked that members of the Committee be furnished with a copy of a paper read by Mr. Riefler at the annual meeting of the Western Economic Association on September 4, 1952 on "Debt Management, Fiscal Policy, and Monetary Controls", which discussed in some detail the effects of flexible Reserve Bank operations during July and August this year, with the thought that the members of the Committee might wish to comment regarding the points covered in Mr.

Riefler's paper at or before the next meeting. Chairman Martin also suggested that during the next few months the members of the Committee give special thought to its responsibility in connection with underwriting Treasury financing, adding that sooner or later the Committee would have to reach a decision as to whether it should give up the underwriting of Treasury offerings or whether it should proceed in more or less the manner that has been followed in the past.

With specific reference to the October 1 financing, for which the Treasury had offered a 2-1/8 per cent 14-month note in exchange for $10,861 million maturing 1-7/8 per cent certificates of indebtedness, the Chairman noted that, except for purchases of the maturing issue during the four-day period the books were open, the System's open market operations had supplied only a negligible additional amount of reserves to the market since the end of June. He felt that the Committee's operations during this three-month period had been reasonably successful in keeping an even flow of money through the economy without having had funds "swishing over the banks" or contracting unduly. The fact that member banks had continued to borrow in the neighborhood of $1 billion from the Reserve Banks during most of this period suggested that consideration might be given to the possibility of an increase in the discount rate if further restraint on credit expansion became necessary. The Chairman suggested, however, that at this time the problem was whether the Committee's present policy of neutrality, which in practice meant a situation having modest restraint upon credit expansion, should be reaffirmed, modified in the direction of greater restraint, or changed to bring about easier credit conditions during coming months.

Mr. Earhart stated that he felt the existing policy should be reaffirmed but that he had been somewhat disturbed by the amount of Government securities purchased at a premium by the System open market account in connection with the October 1 Treasury financing, whereas in the August 15 financing, the Federal Reserve was not willing to pay a premium on the maturing issue and acquired only a small volume.

In response to Mr. Earhart's comment, Chairman Martin made a statement substantially as follows:

> I think a discussion of that point would be very useful. It touches directly on the underwriting problem we have in front of us to which I have just referred. The executive committee at the time of the August refinancing decided not to do anything with respect to purchases of "rights" at a premium. In discussing the October 1 financing at our meeting on September 15, the executive committee decided to make purchases of "rights" at a premium of 3/64. The question Mr. Earhart raises is first whether we put in more money in connection with the October financing than our projection of the demand for credit this fall would call for, and second, if we did whether we can secure the position in connection with the approaching sale of Treasury tax anticipation bills, which will increase the demand for reserves. I think this operation is extremely difficult, particularly while we are moving from a pegged market to a free one. During this period there is bound to be a certain amount of misunderstanding in the market and misinterpretation of what our policy is. At the last meeting of the executive committee we had quite a debate as to whether we would buy the "rights" at a premium of 1/32 or 1/64 or 2/32 or something else. The 3/64 represented a compromise. The area of difference in the amount of attrition we took on ourselves is somewhere between 97 per cent of the total maturing issue and 91-1/2 per cent. In view of all the circumstances, that does not seem to me to be a great amount. I was sorry we had to buy at all but it still does not seem too much. If we had bought the

"rights" at a premium of 1/64 we might have bought less. I think that by and large we ought to err, if we are to err, on the side of being sympathetic with the Treasury's problem since we have, perhaps wrongly, assumed some underwriting responsibility in the past year or so for their issues. Whether we should proceed more cautiously and minimize Federal Reserve takings of the maturing issue is a very real problem. I would think you could make a pretty good argument on either side as to the handling of the Treasury's October 1 offering, but my feeling is that the way we did it was on the right side. The question whether our purchases, if any, should be at par and 1/32 or 1/64 or 3/64 is something that can only be determined over a period of time.

In the executive committee meetings we have been discussing very frankly the area of necessary discretion that lies between decisions in policy matters and decisions on operations. I think we are feeling our way between the problems of debt management and of monetary policy from day to day. I would also like to have Mr. Sproul give his views on this.

Mr. Sproul then made a statement substantially as follows:

As to how we should proceed, I think it was and is a question of judgment based on experience during this period of transition from a pegged market to a free market. The results of the August financing and of the October 1 financing are perhaps significant: In August we bought "rights" only at par and the attrition on the Treasury was 17-1/2 per cent and on us 7-1/2 per cent. In the October 1 financing when we bought "rights" at par and 3/64, the attrition on the Treasury was 8 per cent and on us 17-1/2 per cent. In other words, at a time of restraint on credit availability and rising interest rates or anticipation of rising interest rates, we must expect that attrition on these Treasury issues is going to be substantial. We should no longer think in terms of 5 or 10 per cent attrition over-all.

As to the general question of whether we or the Treasury ought to take the attrition, I should think we should want, in a period of credit restriction, to let the Treasury take the attrition since we would wish to avoid supplying reserve funds. The Treasury would be able to offset the attrition with increased issues of weekly Treasury bills or tax anticipation bills. It should not be unduly embarrassed.

> In this last operation, we put more credit into the market than any of us would have preferred at that particular time. However, over the next few weeks we have the natural factors of decreasing float, building up of Treasury balances, and seasonal increases in required reserves working in our favor to reduce the amount of reserves available in the market. If we hold back now so that the banks are again brought into the position of substantial borrowing, I think we can retrieve what we lost in the October 1 financing.

Several other members of the Committee commented on reactions in their areas to the results of the October 1 financing and there followed a brief discussion of factors which might affect the demand for Government securities during the first part of 1953.

During this discussion, Mr. Evans commented that while he did not think anyone could say how great the credit needs would be during the next month or two, he felt that the policy should be one of constant restraint, so that the amount of money put into the market would be held to a minimum.

None of the members of the Committee indicated that there should be any change in the current general policy of neutrality, which means restraint on undue credit expansion, and at the conclusion of the discussion there was unanimous agreement with Chairman Martin's suggestion that the present policy be reaffirmed.

Chairman Martin then expressed the view that the policies of the Federal Open Market Committee would be having their maximum effect if member banks were in a position where they were borrowing from the Federal Reserve Banks somewhere in the neighborhood of $1 billion. He felt that if borrowings increased to $1-1/2 or $2 billion or more, the restrictive effects might decrease. The point, he said, was that as the volume of borrowings increased bankers became more accustomed to being in debt to the Federal Reserve. He also felt that too heavy a load of borrowing might have undesirable repercussions in the mobility of the money markets.

Some of the members of the Committee felt that banks have a general reluctance to borrow and that while, to some degree, they might become reconciled to discounting, there would be accumulative restraining effects if the situation developed to the point where further larger borrowings at the Federal Reserve Banks were necessary.

In response to a question from Chairman Martin as to the use of repurchase agreements, Mr. Rouse stated that the present authority continued to be useful but that it was not a major tool and had not been used to any great extent during the past few months. With respect to the Chairman's comment that member bank borrowing ranging upwards from $1 billion might become progressively less effective, Mr. Rouse agreed in general that when borrowing got much over $1 billion it meant that the money market was tight, that dealers were less likely to make a market under such conditions, and that some of the flexibility was thus taken out of the market. He felt it was not possible to give a categorical reply to the question whether the situation would become less restrictive if borrowing rose above that figure although he expressed doubt that it would.

In a discussion of Treasury needs for additional funds during coming months, Mr. Thomas stated that it appeared that somewhere between $4 and $5 billion would be needed between now and the end of the year and that this probably would be met by the issue of tax anticipation bills announced by the Treasury in the amount of $2-1/2 billion this week and by a further additional issue of tax anticipation bills within the next month or two for about the same amount. While there would be a small refunding totaling approximately $1 billion around December 1, 1952, Mr. Thomas felt that no conclusion could be reached at this time as to the best means of handling that refunding.

Reference was then made to a memorandum dated September 23, 1952, from Mr. Leonard, Director of the Division of Bank Operations of the Board of Governors, concerning open market participation in special Treasury certificates of indebtedness. The memorandum, copies of which had been sent to each member of the Committee before this meeting, pointed out that at present such Treasury certificates of indebtedness (which are carried only on a few occasions during the year and only for a few days at a time) are carried in the open market account with resulting participation by all Federal Reserve Banks. It also stated that the procedure whereby these certificates are allocated to the several Federal Reserve Banks involves considerable bookkeeping and considerable exchange of telegrams between the manager of the open market account and the individual Reserve Banks and also results in complications when certificates are carried over Saturdays and holidays, when some Reserve Banks are open and others are closed and the Treasury wishes to make payments on the certificates. The memorandum suggested that consideration be given to having the special certificates carried by the Federal Reserve Bank of New York for its own account instead of being held in the open market account, noting that the System's earnings on such certificates are relatively small ($4,000 in 1951 and $49,000 during 1952 up to September 22) and that the proposed procedure should not affect significantly the earnings position of any Reserve Bank.

Chairman Martin stated that he felt the procedure suggested in the memorandum would be desirable and, in response to the Chairman's request, Mr. Sproul reviewed the reasons for the proposed change in procedure. Several of the members of the Committee who also were Reserve Bank Presidents stated they would favor having the New York Bank handle the special Treasury certificates.

Mr. Rouse stated that adoption of the proposed change would probably make unnecessary the authorization approved at the meeting of the full Committee on June 19 concerning purchases of special certificates over weekends when some Federal Reserve Banks are closed but others are open. He observed that that authorization had been approved to make it possible for the Treasury to pay down the amount of the special certificates on any day when only a portion of the Reserve Banks or branches were open, but that the Treasury had indicated to him that the possible saving in interest was not sufficient to justify the use of the procedure on a recent occasion when most of the Federal Reserve offices were not open.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the Committee authorized the adoption of a procedure whereby the Federal Reserve Bank of New York would purchase direct from the Treasury, for its own account, such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury within the limit authorized by the executive committee. In taking this action it was understood that (1) in cases where it seemed desirable, the New York Bank was authorized to issue participations to one or more Federal Reserve Banks, and (2) the executive committee was authorized to issue such detailed instructions to the New York Bank as were needed to carry out the action of the full Committee.

Mr. Rouse referred to the discussion at the meeting of the executive committee on April 4, 1952 at which time the executive committee agreed to recommend to the full Committee that the remaining $713 million of 2-3/4 per cent non-marketable bonds of 1975-80 held in the System account be converted into 5-year 1-1/2 per cent marketable Treasury notes to be dated October 1, 1952.

It was agreed unanimously that the remainder of the non-marketable bonds of 1975-80 should be exchanged for 5-year 1-1/2 per cent marketable Treasury notes to be dated October 1, 1952, in accordance with the recommendation of the executive committee at its meeting on April 4, 1952.

During a discussion of the general direction to be issued by the full Committee to the executive committee, Chairman Martin mentioned that some minor changes in wording would be necessary as a result of the Committee's approval earlier during this meeting of the proposal that special Treasury certificates of indebtedness be carried by the Federal Reserve Bank of New York rather than in the System open market account, and he suggested that the existing direction, revised to include such changes in wording as Mr. Vest felt were necessary to carry out that decision, be approved. The Chairman also mentioned that the June 19, 1952 direction included a clause to the effect that the authority to purchase securities direct from the Treasury would terminate on June 30, 1952 if the authority contained in section 14(b) of that Reserve Act were not extended beyond that date, and that since Congress had extended this authority for an additional two years, the clause was no longer needed. Mr. Rouse suggested that the existing limitations in the direction be renewed at this time.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously.

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 System account (including commitments for the purchase or sale of securities for 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.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (which Bank shall have discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) 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 at any one time by the Federal Reserve Banks shall not exceed in the aggregate $2,000,000,000.

It was agreed unanimously that the next meeting of the Federal Open Market Committee would be held during the week beginning December 8, 1952.

Thereupon, the meeting adjourned.

Winfield W. Riefler

Secretary