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, March 4, 1953, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans (latter part of meeting)
Mr. Johns
Mr. Mills (first part of meeting)
Mr. Powell (first part of meeting)
Mr. Robertson
Mr. Szymczak
Mr. Vardaman (first part of meeting)
Mr. C. S. Young, alternate for Mr. Gidney

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel (middle part of meeting)
Mr. Thomas, Economist
Messrs. Abbott, Peterson, Roelse, Thompson, and Ralph A. Young, Associate Economists
Mr. Rouse, Manager, System Open Market Account
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director of the Division of Research and Statistics, Board of Governors
Mr. R. F. Leach, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Arthur Willis, Assistant Secretary, Federal Reserve Bank of New York

Messrs. Gilbert, Leedy, and Williams, alternate members of the Federal Open Market Committee

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

Mr. Fulton, First Vice President, Federal Reserve Bank of Cleveland

Messrs. Rauber and Wheeler, Vice Presidents of the Federal Reserve Banks of Atlanta and San Francisco, respectively; Mr. Parker B. Willis, Financial Economist, Federal Reserve Bank of Boston

Mr. Riefler reported that advices of the election for a period of one year commencing March 1, 1953, of members and alternate members of the Federal Open Market representing the Federal Reserve Banks had been received, that except for Mr. Gidney each newly elected member and alternate member had executed the required oath of office, and that it was the opinion of the Committee Counsel on the basis of advices received that the following members and alternate members were legally qualified to serve except that it would be necessary to receive the executed oath of office from Mr. Gidney, a form having been mailed to him for that purpose:

> Secretary's note: Mr. Gidney's oath of office, properly executed, was received by the Secretary under date of March 17, 1953.

Allan Sproul, President of the Federal Reserve Bank of New York, with William F. Treiber, First Vice President of the Federal Reserve Bank of New York, as alternate member;

J. A. Erickson, President of the Federal Reserve Bank of Boston, with Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, as alternate member;

Ray M. Gidney, President of the Federal Reserve Bank of Cleveland, with C. S. Young, President of the Federal Reserve Bank of Chicago, as alternate member;

Delos C. Johns, President of the Federal Reserve Bank of St. Louis, with R. R. Gilbert, President of the Federal Reserve Bank of Dallas, as alternate member;

Oliver S. Powell, President of the Federal Reserve Bank of Minneapolis, with H. G. Leedy, President of the Federal Reserve Bank of Kansas City, as alternate member.

> Upon motion duly made and seconded, and by unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election

of their successors at the first meeting of the Committee after February 28, 1954, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or a Federal Reserve Bank as the case might be they would cease to have any official connection with the Federal Open Market Committee:

Wm. McC. Martin, Jr.	Chairman
Allan Sproul	Vice Chairman
Winfield W. Riefler	Secretary
Elliott Thurston	Assistant Secretary
George B. Vest	General Counsel
Frederic Solomon	Assistant General Counsel
Woodlief Thomas	Economist
Wm. J. Abbott, Jr., Arthur A. Bright, Jr., J. Marvin Peterson, H. V. Roelse Donald S. Thompson, and Ralph A. Young	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after February 28, 1954.

Mr. Sproul stated that the Board of Directors of the Federal Reserve Bank of New York had selected Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System account and his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairman of the Federal Open Market Committee (who under the provisions of the by-laws is also Chairman of the executive committee) as members and alternate members of the executive committee until the selection of their successors at the first meeting of the Federal Open Market Committee after February 28, 1954:

Members	Alternate Members
R. M. Evans Abbot L. Mills, Jr.	M. S. Szymczak J. L. Robertson James K. Vardaman, Jr. (To serve in the order named as alternates for Messrs. Martin, Evans, and Mills)
Allan Sproul J. A. Erickson	Delos C. Johns Oliver S. Powell (To serve in the order named as alternates for Messrs. Sproul and Erickson)

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on December 8, 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 December 8, 1952, December 23, 1952, January 6, 1953, January 27, 1953, and February 10, 1953, were approved, ratified, and confirmed.

Before this meeting there had been sent to the members of the Committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period December 8, 1952 to February 25, 1953, inclusive. Mr. Rouse presented a supplemental report covering the period from February 25 to March 3, 1953, inclusive, commenting that in the interval since February 25 repurchase agreements had been entered into with dealers in the amount of $49 million but that all of these had since been taken back by the dealers. 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 December 8, 1952 to March 3, 1953, inclusive, were approved, ratified, and confirmed.

Reference was made to the resolution adopted by the Federal Open Market Committee on November 20, 1936 authorizing each Federal Reserve Bank to purchase and sell at home and abroad cable transfers and bills of exchange and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries. Mr. Sproul stated that accounts were now maintained with the Bank of Canada (book value $12,181, market value $15,261), the Bank of England (book value $10,463, market value $10,540), and the Bank of France (book value $42.79, market value $42.78). He said that about $8 million in transactions had been run through the account with the Bank of Canada during the past year while the other accounts had been kept alive for possible use. Unless there was some specific objection, Mr. Sproul suggested that the three accounts be kept open and that the present authority be continued without change.

> It was agreed that no action should be taken at this time to amend or to terminate the resolution of November 20, 1936.

Chairman Martin referred to the authority granted to the Federal Reserve Banks by the Federal Open Market Committee with respect to repurchase agreements covering short-term Treasury obligations with nonbank dealers in U. S. Government securities qualified to transact business with the System open market account, as amended in July 1952. In response to Chairman Martin's inquiry, Mr. Rouse stated that he felt the authority should be continued but that he would suggest that the provision in subparagraph (c) providing that such agreements "cover all short-term Government securities selling at a yield of not more than the issuing rate for 1-year Treasury obligations" be changed to provide that such agreements "cover only short-term Government securities maturing within 15 months". Mr. Rouse stated that under the present and prospective conditions he felt it would be preferable to have the repurchase agreements related to short-term Government securities of a specified maximum maturity, rather than to those bearing a certain yield.

> Upon motion duly made and seconded, and by unanimous vote, it was agreed unanimously that the authority with respect to repurchase agreements revised to include the change recommended by Mr. Rouse, should be continued.

Secretary's note: Later in the meeting, the Committee voted to abandon the procedure existing heretofore under which it has been necessary for dealers in Government securities to qualify to transact business with the System open market account; and the authority for repurchase agreements with the conditions relating thereto (as enclosed with the letter of July 30, 1952 from the Assistant Secretary of the Federal Open Market Committee to the Presidents of all Federal Reserve Banks), after being revised to delete the words referring to such qualification of dealers and to incorporate the change recommended by Mr. Rouse at this meeting, reads as follows:

CONDITIONS FOR REPURCHASE AGREEMENTS AS
PRESCRIBED BY THE FEDERAL OPEN MARKET COMMITTEE

Each Federal Reserve Bank, in lieu of all similar previous authorizations, is authorized to enter into repurchase agreements with nonbank dealers in United States Government securities under the following conditions:

1. Such agreements

(a) Are at a rate which shall be specified from time to time by the Manager of the System open market account in the light of market conditions and developments and in accordance with any directives or limitations prescribed by the full Committee or the executive committee for the purpose of carrying out the current policies of the Federal Open Market Committee, but in no event shall the effective rate be below whichever is the lower of (1) the discount rate of the purchasing Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills;

(b) Are for periods of not to exceed 15 calendar days;

(c) Cover only short-term Government securities maturing within 15 months; and

(d) Are used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds as to avoid undue strain on a day-to-day basis.

2. Reports of such transactions are made to the Manager of the System open market account to be included in the weekly report of open market operations which is sent to the members of the Federal Open Market Committee.

3. In the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank are sold in the market or transferred to the System open market account.

In a discussion of the procedure for the allocation of securities in the System open market account, Mr. Leedy stated that he felt the existing formula which had been adopted in January 1948 and modified in minor points upon one or two occasions since that time was not entirely satisfactory. He suggested that the present allocation procedure be continued at this time with the understanding that at the meeting of the Committee in June consideration be given to the adoption of a more satisfactory formula.

Chairman Martin stated that he understood this formula was now being reviewed by Mr. Leonard, Director of the Board's Division of Bank Operations, and he suggested that the present allocation procedure be continued with the understanding that a study of the formula would be completed in time to have a discussion of any suggested changes at the next meeting of the full Committee.

The foregoing suggestion was approved unanimously.

Chairman Martin suggested that the terms upon which the Federal Reserve Bank of New York transacts business with brokers and dealers in United States Government securities on behalf of the System open market account, as approved at the meeting on February 29, 1944 and as renewed from time to time since that date, be continued in their present form, with the understanding, however, that this action would be subject to further consideration in the discussion of the report of the ad hoc subcommittee on the Government securities market later during this meeting and subject to such changes as might result from that discussion.

Chairman Martin's suggestion was approved unanimously.

Secretary's note: As recorded later in these minutes, the Committee agreed, by unanimous vote, that the System of rigid qualifications for dealers be abandoned, thus modifying the action above indicated.

Upon motion duly made and seconded, and by unanimous vote, the distribution of the weekly report of open market operations prepared by the Federal Reserve Bank of New York was approved as follows:

1. The members of the Board of Governors.
2. The Presidents of the 12 Federal Reserve Banks.
3. The Secretary, the Economist, and the Associate Economists of the Federal Open Market Committee.
4. The Secretary of the Treasury.
5. The Under Secretary of the Treasury.
6. The Special Deputy to the Secretary of the Treasury working on debt management problems.
7. The Assistant Secretary of the Treasury working on debt management problems.
8. The Fiscal Assistant Secretary of the Treasury.
9. The Chief of the Division of Bank Operations of the Board of Governors.

10. The officer in charge of research at each of the Federal Reserve Banks which is not represented by its President on the Federal Open Market Committee.
11. Mr. Treiber, alternate member of the Federal Open Market Committee; the Assistant Vice President of the Federal Reserve Bank of New York working under the Manager of the System account; the Manager of the Securities Department of the New York Bank; the Vice President in Charge, and the Manager, of the Research Department of the New York Bank; and the confidential files of the New York Bank as agent for the Federal Open Market Committee.

It was agreed unanimously that there should be no change in the authorization given at the meeting of the Federal Open Market Committee on March 1-2, 1951, authorizing the Chairman of the Committee to appoint a Federal Reserve Bank as agent to operate the System account temporarily in case the Federal Reserve Bank of New York was unable to function.

Chairman Martin referred to the action taken by the Committee at its meeting on September 25, 1952 under which it authorized the Federal Reserve Bank of New York to purchase direct from the Treasury for its own account special Treasury short-term certificates of indebtedness with discretion to issue participations to one or more Federal Reserve Banks, rather than to purchase such securities for the System open market account with resulting allocation among the several Federal Reserve Banks. He then called upon Mr. Rouse, who stated that this procedure seemed to be working satisfactorily, that he would recommend that it be continued, and that if the authority in this form was continued, it would appear to make unnecessary the continuation of the authority granted on June 19, 1952 for each Federal Reserve Bank to purchase special certificates from the Treasury when such purchases would facilitate the handling of the Treasury balance on Saturdays and holidays.

Mr. Rouse's suggestions were approved unanimously.

Reference was made to the action taken at the meeting of the full Committee on June 19, 1952 at which the regulation of the Federal Open Market Committee was amended with respect to purchases of prime eligible bankers' acceptances and setting of rates of such acceptances, at which time the Committee also fixed the minimum buying rate on such prime eligible bankers' acceptances at 1-3/4 per cent with the understanding that the effective rates shall be specified from time to time by the Manager of the System open market account in the light of market conditions and developments and in accordance with directives or limitations by the full Committee or the executive committee for the purpose of carrying out the current policy of the Open Market Committee. Mr. Rouse stated that he would recommend that the minimum buying rate on bankers' acceptances be fixed at this time at 2 per cent, adding that at the present time the effective rate on the shortest term acceptances was 2-1/8 per cent.

Thereupon, the Committee voted unanimously to fix the minimum buying rate on prime eligible bankers' acceptances at 2 per cent, subject to change from time to time by the Committee in order to carry out its policies.

At this point Messrs. Garfield, Williams, and Hersey of the Board's staff entered the room for the purpose of assisting in a visual presentation of current economic conditions and policy developments. Mr. Solomon, Assistant General Counsel, also joined the meeting at this point.

In the review of recent changes in production and prices, the comment was made that extensive adjustments to changing economic conditions have been occurring and that there has been more flexibility in the economy than has been commonly recognized. It was pointed out that the latest developments include a downward movement in basic farm prices to support levels and that such prices are no longer free to decline while some industrial commodities which have been held down by price controls such as copper and cigarettes are being permitted to advance in a free market. In future months, it was stated, actual changes in prices and also in production and other relationships will depend not only on domestic developments but also on developments abroad in both the economic and political field. In commenting on the credit situation, it was stated that economic developments suggested a continued strong demand for credit over the next several months, that private demands for credit in the aggregate currently are somewhat larger than a year ago, and that mortgage placements, State and local Government financing, and corporate issues of securities are continuing at a very high level. Particular attention was called to the demand for consumer instalment credit, which is running much higher than last year as might be expected in view of the lengthening out of credit terms, the increased output of automobiles and other durables, and the pressure to sell them at prevailing prices. Questions for the future included the rapid growth of inventory accumulation as well as the continued increase of indebtedness of consumers for durable goods and housing,the curbing of which would require delicate handling if at the same time restrictions on credit were to avoid disturbing a balance in current operations.

Following the presentation, Chairman Martin stated that the economic review highlighted the problem of whether the System should restrict credit further, whether it should ease the situation by putting more funds in the market, or whether it should let market forces operate without interference. He then suggested that there be a report of conditions in each of the Federal Reserve districts as a supplement to the over-all presentation that had been made by the members of the staff.

Mr. Hugh Leach stated that banks in the Fifth District were examining loans to automobile dealers for the purpose of carrying increased inventories more carefully than they had been, that total loans to business had declined somewhat during the past 90 days, and that he anticipated some further decreases might take place in business loans although there might be increases in other types of credit which would offset such declines. As to credit policy, Mr. Leach felt that the present amount of restraint was just about right, that the Committee should not purchase securities now for the purpose of supplying reserves unless a substantial outflow of gold continued and made that seem to be the desirable course. On the whole, he felt modest restraint but not too much restraint was desirable in view of the fact that economic conditions, which were now pretty well in balance, might go either way.

Mr. C. S. Young said that in the Seventh District there was considerable difference of opinion among loaning offices of banks, some of them expecting loans to increase between now and mid-April but others thinking that they might decline. Mr. Young referred to the survey of cattle feeding loans requested by the Board of Governors last week, stating that banks in the Seventh District had not called such loans and in fact were making additional loans on cattle, that there was no lack of credit in that field, and that if anything, banks were too willing to loan to cattle feeders who had lost money last year. Generally speaking, farmers were not in distress even though they had lost money on feeding operations the past year. With respect to consumer instalment loans, Mr. Young stated that although individual bank officers expressed reasons why loans should decline and indicated why such loans were being restricted, the totals for the area continued to rise. Mortgage loans also continued to grow. Mr. Young felt that automobile and farm implement dealers might run into some difficulty in obtaining credit for carrying additional inventories this spring, adding that in the country area there were a good many clouds in the picture but that on the whole loaning officers appeared to be better prepared to meet disturbances that might arise than they have been for some time.

Mr. Johns stated that demand for bank credit in the Eighth District continued strong, particularly for real estate and consumer credit. There was a general spirit of optimism regarding the outlook for the rest of the first half of this year but a good deal of uncertainty as to the second half of the year. It was his opinion that in the immediate future the present precarious balance of economic forces was a little more in need of watching on the inflationary side than on the deflationary side.

Mr. Leedy said that drought conditions last fall and winter in the Kansas City District had affected the outlook greatly, even though there had been some moisture more recently. There had been no liquidation of cattle loans because of calling of loans by banks, Mr. Leedy said, and in fact banks were advancing credit, many of them feeling that such loans at present prices were on a sounder basis than they had been for some time. The general situation, however, growing out of the drought conditions and decline in cattle prices, led him to feel that there was more likelihood of a movement on the deflationary side than on the inflationary side and it was his judgment that the System should "go easy" in applying credit restraints, that this was not the time to be applying the brakes.

Mr. Gilbert said that credit demand continued strong in the Dallas District and that it looked as though it would continue that way all spring. There had not been the seasonal liquidation of loans that had been expected or hoped for and banks were becoming a little more cautious in looking at loans, particularly to sales finance companies. With respect to cattle, while there had been a shrinkage in value of collateral, with one or two exceptions banks had not sustained losses on such loans, and the movement of cattle to market was not a reflection of the calling of bank loans but was due to the judgment of the producers who, in view of the lack of rain and grass, did not wish to expand feeding operations. General business sentiment in the Dallas area is one of guarded optimism, Mr. Gilbert said, with no excessive inventory accumulations and with department store sales holding up well. It was his opinion that there was no basis for relaxation of credit restraint at this time, the question being whether to maintain the present degree of restraint or to make credit somewhat tighter.

Mr. Erickson stated that advances at the Boston Reserve Bank were still much higher than last year, that commercial and industrial loans of banks in New England had been tending upward since the first of this year contrary to the tendency in most other Federal Reserve Districts, and that economic activity in the First District continued at a high level with housing and nonresidential building holding up very well in most areas. Consumer loans are increasing and a general spirit of optimism prevails with some caution becoming more evident than was the case a few months ago. Mr. Erickson felt that banks in the Boston area were surveying credits more carefully than a year ago. As to System credit policy, Mr. Erickson felt that it should be continued just about as it has been in the past few months.

Mr. Earhart said that more caution was evident in country areas of the Twelfth District than had been the case but that the growth factor in that District was still important and that general opinion was that conditions would remain fairly good throughout the year 1953. Commodity, commercial, and industrial loans have declined seasonally so far in 1953, but this decline has been offset by increases in other loans, especially real estate and consumer credit, and total loans have remained about unchanged. Some of the larger banks feel fairly well loaned up for credits of the latter type but still the totals of such loans increase. As to cattle loans, banks have been fairly conservative and have not had occasion to push their collections. Mr. Earhart felt that over-all credit policy should be continued along the lines of mild restraint that have been followed recently.

Mr. Williams said that a spirit of optimism for the year 1953 prevailed in the Third District but that there was a question what would happen from there on. Automobile dealers are expected to be under pressure to move inventories of new cars they are receiving, and there is some feeling that the banks are taking the cream of the automobile financing business, leaving the "cats and dogs" to other financing agencies. There is some fear in the district, Mr. Williams said, of another round of wage increases.

Mr. Bryan said that loans of banks had declined in the Atlanta District less than had been expected. Banks are policing consumer credit loans a good deal better than they were 90 days ago but collections generally are slow. Employment in the district is very tight. In the agricultural area, Mr. Bryan said, there is a chill in sentiment but it is not yet serious. Also, there is a chill in feeling regarding real estate activity. Mr. Bryan would, for the immediate time being, keep credit policy steady on the same basis as at present.

Mr. Fulton stated that industrial activity in the Cleveland District was very high and there appeared to be nothing to dampen optimism. Some plant expansion which had been deferred a few months ago is now going ahead and mortgage money is easier to obtain than during 1952. The run-off in loans has not been as much as expected seasonally and consumer credit continues to advance. There is no distress because of lack of credit in cattle feeding parts of the district, although some of the loans are based as much on the value of the farm property as on the cattle, Mr. Fulton said.

Mr. Powell said that the farm areas of the Ninth District were suffering from the declines in farm product prices but that credits had been quite conservative and that virtually no losses on loans had appeared as a result of the declines in prices. In parts of the district, heavy Federal Government expenditures represented a continuing source of income and the outlook was generally good for the district as a whole. Banks are concerned about consumer credit, however, not so much because of the local situation but because of the national trend which some of them feel, if continued, will make repayment schedules so burdensome as to be a damper on future purchases. Mr. Powell thought that System credit policy would depend to some extent on whether the outward movement of gold continued and he expressed the hope that there would be a further discussion of this point.

Because economic and financial factors converge in New York, Mr. Sproul said, he was inclined to look at credit policy from the standpoint of the national situation, rather than that of the district. It was his impression, however, that banks in the New York District had been restricting lending since the System adopted its present policy of restraint. For the country as a whole, his analysis indicated that high level production activity continues but that there are some signs of maladjustment that will bear watching. These include (a) the rate of inventory accumulations in recent months, (b) the extent to which the very high level of consumer spending is being financed by a growing volume of consumer credit and real estate debt, (c) the decline in farm prices and the pressure for political action to sustain prices which may be generated, and (d) indications of a new wave of wage demands. The likelihood of sustained high level production with necessary readjustments taking place in an orderly fashion, Mr. Sproul said, depends in part on continued credit restraint. Credit should not be readily available to finance further inventory accumulations or as a means of postponing constructive adjustments in production and prices, nor should it be the principal means of transferring inventories to consumers, thereby relieving pressure on business to make necessary corrections. Mr. Sproul felt that application of a policy of credit restraint is becoming less easy because of delayed and indeterminable effects in areas which are now the primary cause of concern--consumer and mortgage credit. Mr. Sproul added that he shared the concern expressed by others about a lack of aggressive action with respect to the growth of consumer credit but that nevertheless general credit restraint does condition the whole credit situation. Such a policy of restraint would call for coordinated use of open market operations, repurchase agreements, and discounting. The reserve needs of banks in the period immediately ahead are expected to run within a range that can be met by changes in member bank borrowing, supported by intermittent use of repurchase agreements, while minimizing direct interventions through outright purchases. Later, if losses of reserves are continuous and substantial, some outright open market buying might become necessary, if credit policy is not to become more restrictive than desired. Mr. Sproul felt that at present the policy of credit restraint the Committee has been following does not call for a further increase in the discount rate but that later the System might wish to consider a further increase in the discount rate. As to the Treasury cash position, Mr. Sproul felt that the Committee was perhaps in an area of considerable freedom with respect to Treasury operations over the next month or two but that a squeeze may develop in late May or early June, and in any case the Treasury will need to obtain new money early in July.

Chairman Martin referred to Mr. Sproul's comment on the discount rate and inquired whether, if the rate on Treasury bills rises persistently for a period of time, Mr. Sproul would feel that an adjustment should be made in the discount rate.

Mr. Sproul responded that a rise in the bill rate would be one of the factors he would wish to consider but that action to increase the discount rate would depend on the general situation, including whether the Committee wished to give a signal of its desire for restraint in credit expansion by increasing the discount rate and making borrowing for member banks more costly.

Mr. Thomas then commented briefly on the credit situation and the effects of the recent and prospective outflow of gold. He felt that the gold outflow might put a desired degree of pressure on the market during the next few months and, unless it increased substantially, would not create any great problem. Little pressure on reserves was expected from other factors, except for temporary variations of largely a seasonal nature. Repurchase agreements could be used to meet such temporary money market needs. Any further tightening or easing of money market pressures would depend on bank credit developments. A general discussion of this subject followed Mr. Thomas' remarks.

Mr. Evans joined the meeting while Mr. Thomas was making his comments, and Mr. Vardaman withdrew during the ensuing discussion.

Chairman Martin stated that on the basis of the economic and credit information presented and the comments made regarding conditions in the various individual Federal Reserve districts, it appeared to be the consensus that there was more reason to feel concern about the possibility of inflationary developments than of a deflationary movement. He suggested, therefore, that the instructions to be issued to the executive committee be in the same form and with the same limitations as at present.

Secretary's note: As recorded later in these minutes, the Federal Open Market Committee approved a change in the wording of the general instruction to be given to the executive committee so as to eliminate from the first paragraph the requirement that transactions be with a view "to maintaining orderly conditions in the Government security market" and to substitute therefor the phrase "to correcting a disorderly situation in the Government securities market". The direction as set forth below reflects this change.

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 correcting a disorderly situation in the Government securities 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.

Mr. Sproul referred to the memorandum on "Some Principles for Debt Refunding" as revised under date of February 27, 1953, copies of which had been distributed before this meeting. He said that it was a good memorandum and that he had no comments to make on it.

Chairman Martin noted that the statement as revised set out general principles of debt management, that it was distributed as a matter of information, and that no action was called for by the Committee.

It was agreed that the next meeting of the Federal Open Market Committee would be held during the week beginning June 8, 1953.

The meeting then recessed and reconvened at 2:20 p.m. on March 4, with the following attendance:

Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman (latter part of session)
Mr. Young, Alternate for Mr. Gidney

Mr. Riefler, Secretary
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Craft, Technical Consultant

Messrs. Gilbert, Leedy, and Williams, 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. Fulton, First Vice President of the Federal Reserve Bank of Cleveland

Copies of the report of the ad hoc subcommittee on the Government securities market and of the appendices to the report had been sent to all members of the Federal Open Market Committee and to all Presidents of the Federal Reserve Banks who were not then members of the Federal Open Market Committee on December 29, 1952.

Chairman Martin made a statement substantially as follows:

I would like to start the meeting on the ad hoc subcommittee report on the Government securities market by giving a little background on the report. At the time of the meeting of the executive committee on January 27, 1953, I asked the Presidents of all the Reserve Banks to come in because we had the problem of Treasury financing at our door, and I thought it would be desirable to have them in then for a discussion of our relations with the Treasury. At this time I would like to discuss the report in terms of the System itself, and comment on how the report came about.

The origin of the ad hoc subcommittee report started when I was still in the Treasury. I saw things from the Treasury side of the picture for about two years during which we had a pegged market in Government securities, which is quite different from a free market. There seemed to me to be quite a bit of misunderstanding in the Treasury as to the extent to which the Federal Reserve should be depended upon to make the market at all times, even if something got outside the peg. As we approached the period when the Treasury-Federal Reserve accord was put together, I am sure there was uppermost in the minds of some of the Treasury people the question whether it was ever going to be possible to have a really free market again. They felt that if we moved in that direction, it was something that would have to be pursued very carefully, and there was some feeling that with a Government debt of its present size, we could never again have confidence in a public market. You all recall the differences of the Treasury and the Federal Reserve and whether the market should be pegged at 1/32 above par and what would happen if it went to 99.

When the unpegging of Government securities came, I was again subjected to many comments on both sides of the picture as to whether we were handling the operation in the best way. It was during that period that was born within me the feeling that we in the System (I was now in the System) ought to make a real investigation of what the market process was, and how we interpreted that process. So I asked the full Committee at its meeting on May 17, 1951 to authorize a subcommittee to explore the operations of the market and our relation to the market. There were many changes taking place, there were refundings by the Treasury, and I was not sure of my judgments in all of the things going on at the time. I talked with many dealers and I found there was a good deal of criticism and doubt. I felt we should consider the question not in terms of any policy matters but in terms of the operations and whether there was developing a market with depth, breadth, and resiliency, to use the phrase that appears in the subcommittee report.

As time went on I thought we should have more experience with the unpegging of the market and the study was delayed until the spring of 1952 when the ad hoc subcommittee got to work. You know the work done, the framing of the questions and the outline, our bringing in of Mr. Craft as technical consultant, of how he presided at the conferences with the dealers, and of how he helped to determine what weight to put on facts and advices given by the dealers. He also gave those of us on the subcommittee an educational experience in dealing with the problem. The conferences with the dealers were extensive and we were slow in drawing our conclusions from those discussions. I do not want to say that any member of the subcommittee or of the staff who worked on the report was particularly influenced by the dealers, but it was important to get the reaction of the market to the operation as it was being conducted.

The initial part of the subcommittee report is directed particularly to discussing what the Government securities market is. We have tried to give some perspective in terms of the Federal Reserve System, but the philosophy to which we gradually moved was the desirability of minimizing intervention on the part of the Committee with the market.

We were very much helped in our report by receiving a document from the New York Bank which was studied by all of the members of the subcommittee. I have had individual comments from a number of the Presidents who have now had adequate time to study the ad hoc subcommittee report. I think I speak for all of the subcommittee in saying that none of us approaches this discussion with the feeling that we have the final answers to the problem with which we are struggling, or that this is a problem that you can put down in a one-two-three order. What we are certain of is that this is something that is always at the heart of System operations and that all of us are going to have to continue to study it.

We feel that we should have a minimum of secrecy in the market, but secrecy is different from privacy with which we don't want to interfere. The more people who understand the purposes and ends that the Federal Reserve is trying to achieve in dealing with a securities market that rolls on in time of war, when we use it as a means of inflation for paying for the war, the clearer the picture for all of us. And therefore the greater the chance that we will have depth, breadth, and resiliency in the securities market on a sound

> basis. You all know the inconsistencies we get into when we talk about a given objective, and how we are going to use the free market--but not too far. That is what we have been grappling with in this report. The subcommittee puts it forth as something we think is crucial in our thinking and objectives, but not as any indication we have come to a final point in our thinking.

Chairman Martin then referred to the informal discussion at the time of the meeting of the executive committee on Tuesday, January 27, 1953, to which all members of the Board of Governors and all of the Presidents of the Federal Reserve Banks were invited and at which there had been considered that part of the report of the ad hoc subcommittee having to do with relations with the Treasury, as set out on pages 76-78 and on page 86 of the report. Chairman Martin said that, as he recalled the discussion on January 27, the language of a memorandum which Mr. Rouse read at that time on behalf of Mr. Sproul who was unable to attend that discussion, met the spirit of the recommendation of the subcommittee. What the subcommittee had in mind, the Chairman said, was that there should be understanding and cooperation with the Treasury in working on matters of mutual interest. Its specific recommendation in this respect was as follows:

> F. <u>Relations with the Treasury</u>
>
> The Subcommittee finds that the Federal Open Market Committee is frequently placed in an inconsistent position by its present practice of initiating advice to the Secretary of the Treasury with respect to decisions in the area of debt management. It recommends that the Committee inform the Secretary of the Treasury that henceforth it will refrain, as an official body, from initiating regularly proposals with respect to details of specific Treasury offerings, and will confine itself officially to providing information

currently on its monetary policies and to counseling on the credit and monetary implications of debt management suggestions advanced for its consideration by the Treasury.

The memorandum of Mr. Sproul which had been read by Mr. Rouse on January 27 was as follows:

Like some of the other recommendations in the report, the recommendation with respect to relations with the Treasury is really a recognition of a changed situation; a situation in which we have shed as much as possible of the role of price fixing in the Government security market. So long as we were maintaining a pattern of rates, and so long as we were the established underwriters of all Treasury issues, there was a basis for our having some initiative with respect to the terms of the securities issued. The locus of primary responsibility had already been blurred. This was particularly so in view of the attitude of the Treasury toward monetary policy during this period.

Now that we are no longer pegging prices and are trying to shrink our underwriting function, the new approach to relations with the Treasury seems to me, in general, to be the appropriate one.

We do not want to become too doctrinaire about this matter of areas of responsibility, however. With a Federal debt which is so large a part of all debts, public and private, which permeates and dominates to some extent the whole securities market, and which has become a principal medium for adjusting portfolios of financial institutions, and the reserves of banks and others, we are not and won't be wholly free to administer credit policy without regard to the Government security market, and without regard to Treasury financing requirements. It won't be enough to say to the Treasury, here is the credit policy we are going to follow; now you manage the debt. These are areas of overlapping secondary responsibilities and opportunities.

While the Secretary of the Treasury can and should consult with whomever he wants, inside and outside the System, therefore, I don't think we should demote the Open Market Committee to the status of the ABA or the IBA or any other groups or individuals when it comes to debt management. Nor do I think we should commit ourselves to never taking the initiative. We are a statutory public body with public responsibilities in a field closely related to debt management, and there should be a maximum of coordination consistent with the primary responsibilities of the Treasury and the Committee.

It seems to me that it would be consistent with the spirit of the subcommittee recommendation, to have the Chairman and Vice Chairman of the Open Market Committee inform the Secretary of the Treasury.

1. Of the desire of the Committee to work with him as closely as possible.
2. Of the intention of the Committee to keep him informed of the credit policies of the System, and particularly of open market policy.
3. Of the willingness of the Committee to have its representatives consult with him concerning credit policy or debt management problems whenever he requests such consultation.
4. Of the intention of the Committee to have its representatives bring to his attention, if and when it seems desirable, matters which may be of mutual interest.

I think this can be done quite naturally, orally with the new people at the Treasury, without in any way perpetuating the situation which the subcommittee seeks to correct.

There was unanimous agreement that the above quoted recommendation in the report and the statement in Mr. Sproul's memorandum represented the Committee's general approach to the Treasury.

Chairman Martin next referred to recommendation E, Organization of the Open Market Committee, appearing on pages 85-86 of the subcommittee's report. This recommendation related to the "housekeeping" functions of the Committee and read as follows:

E. Organization of the Open Market Committee

The Subcommittee finds many anomalies in the structure and organization of the Federal Open Market Committee, particularly (a) the absence of a separate budget covering its operations, (b) the absence of a separate staff responsible only to the Committee, and (c) the delegation of the management function to an individual Federal Reserve Bank. It recommends that the Committee re-examine and review its present organization, and in particular that it consider the advantages and disadvantages that would ensue, were the Manager of the Open Market Account made directly responsible to the Federal Open Market Committee as a whole, and not, as at present, responsible through the Federal Reserve Bank of New York.

Chairman Martin said that, as the recommendation indicated, this problem had given the ad hoc subcommittee considerable difficulty; the subcommittee did not profess to have the answer and its report presented the question as a continuing problem which should be considered further. He suggested that this recommendation be eliminated from the discussion at this meeting and that the ad hoc subcommittee be continued and instructed to meet with Mr. Sproul at an appropriate and convenient time for the purpose of discussing with him the housekeeping arrangements covered in the report, with a view to determining whether it would be worth while to make further exploration of the subject.

Mr. Sproul stated that this procedure would be agreeable to him.

Thereupon, Chairman Martin's suggestion was approved unanimously.

At Chairman Martin's suggestion, the Committee proceeded to a discussion of the other recommendations in the report of the ad hoc subcommittee as presented in the summary of conclusions and recommendations on pages 79-85 of the report under the four headings

A. Relations with the Market
B. Relations with Dealers
C. Operating Techniques
D. Federal Reserve Reports

These recommendations were discussed at three sessions of the Committee, including the one which convened at 2:20 p.m. on Wednesday, March 4, 1953 and which recessed at 4:50 that afternoon; at another session which commenced at 9:30 a.m. on Thursday, March 5, 1953, and recessed at 10:30 that morning; and at a final session which started at 12:10 p.m. on March 5 and lasted until 12:35 p.m. that day.

Mr. Vardaman joined the meeting on the afternoon of March 4 at 3:15 p.m., and the attendance at the three sessions mentioned was the same except that Mr. Evans withdrew at 4:45 p.m. on March 4; and Messrs. Mills, Powell, and Vardaman were not present at the final session which convened at 12:10 p.m. on March 5.

The summary of recommendations by the subcommittee, pertinent parts of the discussion of these recommendations, and the actions taken with respect to each are set forth below in the order in which the recommendations were presented in the ad hoc subcommittee's report.

A. Relations with the market

Recommendations

> The Subcommittee finds that a disconcerting degree of uncertainty exists among professional dealers and investors in Government securities with respect both to the occasions which the Federal Open Market Committee might consider appropriate for intervention and to the sector of the market in which such intervention might occur, an uncertainty that is detrimental to the development of depth, breadth, and resiliency of the market. In the judgment of the Subcommittee, this uncertainty can be eliminated by an assurance from the Federal Open Market Committee that henceforth it will intervene in the market, not to impose on the

market any particular pattern of prices and yields but solely to effectuate the objectives of monetary and credit policy, and that it will confine such intervention to transactions in very short-term securities, preferably bills. The Subcommittee feels most strongly that it would be wise to give such an assurance.

The Subcommittee finds two outstanding commitments that may require intervention by the Federal Open Market Committee in other than the very short-term sectors of the market, and that may add to or substract from reserve funds available to the market for purposes other than the pursuit of monetary policies directed toward financial equilibrium and economic stability. These commitments are, first, the directive to the management of the Open Market Account to "maintain orderly conditions" in the market for U. S. Government securities, and second, those arising from the practice of purchasing rights on maturing issues during periods of Treasury financing, and also on some of these occasions of purchasing when-issued securities and outstanding securities of comparable maturity to those being offered for cash or refunding.

With respect to the first of these commitments, the Subcommittee recommends that the Federal Open Market Committee amend its present directive to the executive committee by eliminating the phrase "to maintain orderly conditions in the Government securities market", and by substituting therefor an authorization to intervene when necessary "to correct a disorderly situation in the Government securities market." It has indicated in its report the conditions it would consider sufficiently disorderly to require correction. The Subcommittee recommends also that such intervention be initiated by the executive committee only on an affirmative vote after notification by the Manager of the Account of the existence of a situation requiring correction.

With respect to the second, the Subcommittee recommends that the Federal Open Market Committee ask the Treasury to work out new procedures for financing, and that as soon as practicable the Committee refrain, during a period of Treasury financing, from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.

The Subcommittee feels that such qualifications as are implicit in these two recommendations would not seriously impair the constructive effect of a general assurance from the Committee that its intervention henceforth will be limited to the effectuation of monetary policies and will be executed in the very short sector of the market. It recommends most strongly that such assurance be given as soon as its existing commitments have been appropriately modified.

At Chairman Martin's request, Mr. Craft reviewed the comments in the subcommittee report and particularly in appendix "C" to the report relating to the proposed formulation of a general set of "ground rules" by the Federal Open Market Committee to cover its transactions in the market. Mr. Craft stated that even today many of the more sophisticated people in the Government securities business were still not convinced that the Federal Open Market Committee had abandoned the theory that the Government securities market must continue to be controlled within limits. This was illustrated, he said, by the fact that purchases by the Federal Reserve Bank of New York of Government securities for Treasury trust accounts might be the cause of rumors that the Open Market Committee was "back in the market". Mr. Craft emphasized what he conceived to be the advantages of confining transactions for the System account normally to Treasury bills as a means of permitting greater flexibility in open market account operations, with a minimum of disturbance to prices and yields on longer-term securities. He said that would permit the market (a) to reflect the natural forces of demand and supply and (b) to furnish a signal of the effectiveness of credit policy aimed primarily at the volume and availability of bank reserves. He suggested that in practice acquisition by the Federal Reserve System of any issues except Treasury bills tended to result in a permanently frozen System portfolio and served to restrict flexibility in open market operations for the purpose of effectuating general credit policies. He felt that adoption of a guiding principle that, for normal open market operations, transactions should be confined to Treasury bills would go far toward eliminating the handicaps that attach to intervention by the System account in the market. Mr. Craft also brought out the view that it was desirable to limit intervention by the System outside the bill market to periods when it seemed desirable to correct disorderly conditions in the market. It was his view that this was desirable so as to avoid imposing on the market any particular pattern of prices and yields, and he felt that assurances along the lines recommended in the subcommittee's report should be given by making known to the dealers the "ground rules" which would govern System operations in the market. This would mean, he said, that better market behavior could be expected in the technical sense, and the results of credit and monetary policy could be appraised more accurately. While he recognized that Federal Reserve credit policies must be based on many considerations and that they could not be governed by a rigid formula, it was his belief that such policies could best be effectuated under a set of simple rules that are fully understood by all participants in the market.

Following Mr. Craft's statement, at Chairman Martin's request, Mr. Sproul commented on the proposed "ground rules" suggested by the report and on the proposal that some sort of assurance be given to the market by making these general rules known.

Mr. Sproul said that the suggestion for making such ground rules public involved the question whether System operations should be confined to the short area of the market. He felt that such suggestions were based on what had happened in the past, when the System was supporting the Government securities market, and on the situation existing at the moment, where the market apparently still has not, after two years, found out what it might have been expected to find out by observing the System's performance. Formulation and announcement of ground rules along the lines suggested showed, perhaps, too much concern for the dealers in Government securities who naturally and properly are primarily interested in the protection of their capital and making a profit on their operations. He thought this situation could not be improved, having regard for our primary interest which is credit policy, by publication of "ground rules"; that a "norm" could be established only by what the Committee did over a period of time. He said that the principal reason why the Government securities market did not have depth, breadth, and resiliency at all times is now due to uncertainties regarding general credit policy and the Treasury's debt management program, rather than because of any concern that the Federal Reserve might intervene in the market, and pointed to the present condition in the market as supporting this view. What the market wants to know, he said, is whether interest rates and, therefore, security prices are going up or down; this is tied in with the whole question of credit policy.

With respect to the proposal for confining open market operations to the short-term sector of the market, Mr. Sproul said that there might be times when the System would wish to intervene in other than the short-term area in order to get direct effects on the availability and cost of credit in the capital market or the mortgage market, as a means of effectuating credit policy. He did not agree that acquisition of longer term securities necessarily meant that the System account would be frozen in as a holder of such securities. And quite apart from what the Committee might decide as a matter of current policy on the suggestion that operations be confined to the short-term area, Mr. Sproul said that public assurance as to the continuance of this policy could not be given to the market, as proposed, without misinterpretation and misunderstanding and without seeming to bind future open market committees, which could not be bound by statements made by predecessor committees.

In response to a question from Chairman Martin, Mr. Sproul stated that at the present time he thought it was desirable to operate only in the short-term sector of the market as far as that was possible, but that he could not say what would be desirable next year or two years from now. He could conceive of wanting to operate in the long-term market in terms of credit policy because of the possible effect on interest rates and the availability of funds for investment. He illustrated this by suggesting that a more direct effect might be had on mortgage rates in this manner than by operating in the short-term market. While at the present time there was no argument in the Open Market Committee, that dealing in the short-term market met the needs of the Committee, Mr. Sproul felt that it was unnecessary and undesirable to try to give assurance by publishing "ground rules", for all time to come on this or any other point having to do with credit policy. He did not think the Committee should issue any statement or ground rules which might seem to,but could not,tie the hands of future committees; and he did not feel assurance of the type suggested in the subcommittee's report was necessary in order to get the desired depth, breadth, and resiliency in the market. This would come, so far as we have an influence, he said, from our actions over a period of time; not from public statements. We should always remember, he said, that while the proper functioning of the Government securities market is most important to the Federal Reserve System, the primary concern of the Federal Open Market Committee is credit policy and the Committee should not try to give assurances which might result in a frozen credit policy.

Chairman Martin said that the idea that the Open Market Committee should carry on operations having to do with the supply of reserves by operating in the long-term market was entirely inconsistent with having a good Government securities market, that a dealer could not be expected to stay in the business if he felt that the Federal Reserve in its judgment would attempt to effectuate credit policy by intervening in the long-term market. He said that he was not interested in the Government securities dealer per se but that he was greatly interested in the Government securities market, that over a period of time there must be a reasonably good Government securities market in order that the Committee might effectuate its credit policies, and that while general credit policies which might be adopted by the Committee would affect prices and yields on Government securities, the additional uncertainties that might be caused by the threat of

Committee operations on a large scale in long-term Government securities might destroy the market.

Mr. Sproul thought dealers could and would stay in business even though the possibility of Federal Reserve intervention in the long-term market continued; that the subcommittee report made too much of the difference between changes in prices and yields in the long-term market brought about by intervention in the short-term market and similar changes brought about by direct intervention in the long-term market. He also said that he was talking about preserving freedom of action for the Committee in the future. He thought the Committee could say, in season and out, that its purpose and policy now is to effectuate credit policies through supplying or absorbing reserves and not to support any pattern of rates or prices or yields in the Government securities market, but he did not think the Committee could give any other assurance which would be worth while in terms of its effect in the market or in terms of what the Committee might or might not do at some future time.

Mr. Bryan stated that there was a fundamental difference between operating in the short-term and the long-term market, that when the Committee operated directly in the long-term market for the purpose of affecting prices it was substituting its judgment for that of the market as to what such interest rates ought to be.

Mr. Sproul responded that whenever the Committee put funds into or took funds out of the market it necessarily affected interest rates and that the Committee must have a judgment as to how its operations would affect the costs as well as the availability of credit whether it operated indirectly or directly on long-term rates. Any form of assurance as to how the Committee would operate in the future would, Mr. Sproul said, tend to bring about a frozen credit policy.

Mr. Szymczak brought up the question that had been referred to by Mr. Craft regarding uncertainties caused in the market by purchases by the Federal Reserve Bank of New York of long-term Government securities for Treasury trust accounts. He wondered whether such purchases should not be distinguished from those made for the System account for the purpose of effectuating credit policy.

Mr. Sproul responded that if it seemed desirable to separate those transactions, there was no reason why that could not be done.

In a further comment on relations with the market, Mr. Szymczak said that there were two questions involved -- the extent to which the Committee might need to operate in the market, and the extent to which it should inform the market where and how it was going to operate. On the first question, his own feeling was that the Federal Open Market Committee should go into intermediate and longer-term securities only when that was necessary to correct a disorderly market condition. On the second question, Mr. Szymczak could see no good reason for not informing the market of the general basis on which the Committee would operate.

Chairman Martin stated that he did not think there could ever be a contractual sort of assurance given to the Government securities market by anybody but that it seemed to him to be an unnecessary, disturbing element for those in the Government securities market to feel that such an important element as the open market account might step in and operate directly in long-term securities because it decided to do so. He thought that the Committee would not be making a contract and would be free to change its credit policy on any day if it gave to the market a statement of the general framework within which it intended to operate. The financial community should have such an assurance, he said; there was a misunderstanding of the extent to which the Open Market Committee might "play God".

Mr. Robertson suggested that it might be helpful to have a draft of a statement giving assurance along the lines outlined by Chairman Martin as a means of helping in further consideration of this question, to which Chairman Martin responded that he felt it would be premature at this time to draft such a statement, that what the Committee was seeking was fuller understanding of the market, that it was clear that the whole question needed further study, and that in the course of such a study it might be desirable to draft a statement such as Mr. Robertson suggested.

In further discussion, Mr. Mills said that it was his understanding that the difference of opinion on the proposed ground rules was on whether the Committee should give public assurance, that he understood it to be the sense of the group that it agreed with the philosophy of the ground rules, that operation in the short end of the market is the practice that is now being followed, and that this practice should justifiably be continued into the future unless there is a change in the market or in the policy of the Committee.

Chairman Martin commented that Mr. Mills had stated clearly and effectively his understanding of the Committee's views.

Mr. Sproul agreed with Mr. Mills, assuming that he was referring to the present situation in the market and present open market policy, and not to a permanent philosophy with respect to nonintervention in the long-term market.

> There was further discussion of the various suggestions made in the subcommittee's recommendations regarding relations with the market in the course of which unanimous agreement was reached on the following points:
>
> 1. Under present conditions, operations for the System account should be confined to the short end of the market (not including correction of disorderly markets).
>
> 2. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).
>
> 3. Further study should be given by the ad hoc subcommittee to the suggestion that the Committee adopt a continuing policy of confining its intervention in the market to the short-term area, and to the questions whether some type of assurance regarding the Committee's procedure in this respect should be given and, if so, how such assurance should be made available.

4. The directive of the Federal Open Market Committee to the executive committee should be changed to eliminate the phrase regarding the maintenance of orderly conditions in the Government security market, and there should be substituted therefor an authorization to intervene when necessary "to correct a disorderly situation in the Government securities market". In approving this change, it was understood that intervention to correct such a situation would be initiated only upon the affirmative vote of the executive committee after the existence of a situation seeming to require correction had come to its attention through notice from the manager of the account or otherwise, but it was recognized that in the event of an emergency, such as an international crisis, it might not be possible to canvass all members of the executive committee before initiating such intervention.

5. It was understood that, pending further study and further action by the Committee, the Committee approved the subcommittee's recommendation that it should refrain during a period of Treasury financing from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.

B. Relations with Dealers

Recommendation

The subcommittee finds no present or prospective justification for continuing the present system of rigid qualifications for dealers with whom the account will transact business, and recommends that the system be dropped.

Chairman Martin stated that the subcommittee felt it would be desirable to eliminate the dealer qualification system as a means of removing any basis for the charge that the Open Market Committee favored certain dealers in Government securities in carrying on its transactions. The subcommittee's thought was that if this were done the manager of the account would then do business on the basis of the best price available in the market.

Mr. Sproul stated that he felt the most satisfactory situation was not to have the present rigid qualification system but to have the manager of the System account given discretion to do business with whatever dealers seemed best suited to carry out the policy of the Committee. He said that as a matter of practical administration as well as of policy it would not be possible for the account to do business with anyone who might offer to sell securities to or buy securities from it and that, therefore, the manager of the account should have discretion.

Chairman Martin said that the subcommittee recognized that the manager of the account would have to have some discretion but that it felt that no opprobrium would be placed on anyone if dealings were on the basis of the best price, assuming the dealer was responsible.

Mr. Sproul stated that he agreed with this within the limits of practical administration in ascertaining the best price, and that the logical conclusion was to put the whole matter at the discretion of the manager of the account.

There followed a long discussion of what criteria might be used to guide the manager of the account in his dealings, Mr. Rouse expressing the view that there might be some dealers for whom he would have "personal distrust", or who were not "personally respectable", and that he would not wish to do business with such dealers.

Mr. Sproul did not feel that the element of "personal trust" or "personal respectability" should have anything to do with trading, that it was a question of whether the dealer was "responsible" in the sense that he could carry out commitments.

Chairman Martin stated that what the subcommittee was trying to do was to get away from saying that any individual or firm was precluded from access to the trading desk who was otherwise contributing to the Government securities market. He did not think the account should undertake to do business with someone who only occasionally got into the Government securties market; he did feel that the firm or individual must be in the business of dealing in Government securities, and that the executive committee could deal with any problems that might arise in this connection.

> Following the discussion, unanimous approval was given to the recommendation that the present system of rigid qualifications for dealers with whom the account will transact business be abandoned, with the understanding that henceforth transactions would be carried on with any persons or firms actually engaged in the business of dealing in Government securities, and that price would be the main criterion for such transactions.

C. Operating techniques

Recommendations

> The subcommittee finds that many of the present operating techniques of the account are upsetting to the smooth functioning of the market. In general these techniques were prescribed by the Federal Open Market Committee at a time when it was attempting to peg market prices and yields of United States Government securities. With respect to market techniques, the subcommittee recommends specifically:

(a) That "reluctant buying" be completely abandoned, and that supporting operations in the market, if undertaken at all, be executed through a technique of aggressive rather than reluctant purchasing.

In response to a question by Chairman Martin, Mr. Rouse stated that the reluctant buying technique had been abandoned but that in his opinion it had been useful in the past and that there might come a time in the future when it would again be useful. In Mr. Rouse's opinion, that technique had been more useful during the period of pegging of Government securities prices than a procedure of "aggressive buying", since the Committee had to consider its willingness to put reserves in the market. On the whole, however, Mr. Rouse felt that it was an undesirable practice and that under present conditions it was desirable to abandon the reluctant buying technique.

Mr. Sproul stated that he would dislike to see the Committee commit itself to a policy of "aggressive buying", rather than "reluctant buying", at all times in the future, and that while he had no objection to abandoning reluctant buying--it had already been abandoned--he felt there was no need to go to the other extreme of saying that the Committee would at all times in the future engage in aggressive buying.

Mr. Powell questioned whether the term "aggressive buying" was what was intended for the future, asking whether abandonment of "reluctant buying" did not mean that the Committee would follow "normal" buying procedures.

Mr. Szymczak said that, as he understood it, "aggressive" purchasing had nothing to do with credit policy, that it referred only to the operating technique. He recalled that "reluctant" purchasing had developed at a time when the System was supporting and, later, pegging the Government bond market, and that it had been abandoned with the abandonment of the supports in a pegged market. He assumed that the technique of "aggressive" purchasing would apply to the operating procedure when the Committee found it necessary to go into the market to correct a disorderly condition. In other words, the operating technique would be not to allow a disturbing overhang in the market, but to take a position to carry out whatever the Committee policy was at the time.

Chairman Martin said that as he understood it, Mr. Powell would say that this was "normal" purchasing, and there was no indication of disagreement with this comment.

> Following a brief further discussion, it was agreed unanimously that having abandoned the technique of reluctant buying, which was used at times during the period of supported markets, it should not be resumed without further consideration by the executive committee of the Federal Open Market Committee.

(b) The subcommittee recommends that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis.

Mr. Rouse expressed the view that it was much more satisfactory to work with dealers as principals rather than as agents, although there might be times in the future when the Committee would wish to revert to an agency basis. He added that transactions were now conducted with dealers as principals as they were all of a short-term character.

Thereupon, unanimous approval was given to the foregoing recommendation that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis, with the understanding that if it seemed desirable to do so at some future time the executive committee would consider a proposal to revert to an agency basis.

(c) The subcommittee recommends that if rights are acquired during refundings they be purchased from dealers without regard to whether or not they come from the dealers' position.

Approved unanimously, it being noted that while the Committee was in full agreement with the spirit of this recommendation, it was inoperative at the present time in view of the fact that, as recorded under No. 5 on page 42 of these minutes, the Committee, pending further study and further action by it, had agreed that it would refrain from purchasing rights on maturing issues during periods of Treasury financings.

(d) The subcommittee recommends that refusal to buy bills acquired by dealers on a cash basis be discontinued.

Approved unanimously, it being understood that the practice referred to had already been discontinued.

(e) The subcommittee recommends that nonbank dealers be informed adequately in advance when repurchase facilities will be made available.

Approved unanimously, it being understood that the adequacy of the advance notice would depend on the availability of information indicating to the manager of the System open market account the need for such facilities.

(f) The subcommittee recommends that repurchase facilities at an appropriate rate and with appropriate limitation as to volume be made regularly available to nonbank dealers over weekends.

Mr. Rouse said that he had very little sympathy with this proposal, that he felt it would be putting the Committee right back in the business of pegging Government securities to a certain extent. He thought money for the purpose indicated should be obtained through the market as a normal thing and that it should not be available regularly from the Federal Reserve System.

Mr. Mills wondered whether such a procedure would not work out much the same as the discount mechanism does with banks so that nonbank dealers would thus have access to funds the same as bank dealers in Government securities now have access to such funds through discounting. Mr. Mills also suggested that such an arrangement would not put an undesirably large amount of reserve funds into the market and that the procedure would not impose any particular problem on the Open Market Committee.

Mr. Sproul said that it was a question whether the System put credit policy ahead of improving the Government securities market. He felt credit policy should be put first, that this was the reason the System had gotten out from under the peg and away from the position of making reserve funds available to banks at their initiative, rather than at the initiative of the Federal Reserve. Mr. Sproul added that whenever dealers really needed funds over weekends they should get them but it was not desirable to arrange for them to have automatic access to Federal Reserve credit.

Chairman Martin agreed that it was credit policy the Committee was primarily concerned with, but he said that the Committee should not be shortsighted to the extent that it would disregard something that might have a significant bearing on the Government securities market. He thought careful consideration should be given to the relative position of bank and nonbank dealers in being able to carry bills, having in mind that modest help to the bill market in this manner might be warranted.

Mr. Sproul responded that if the initiative were retained by the System and discretion were provided by an action of the Committee, the dealers should get funds under repurchase agreements in circumstances where they could not get them outside for the purpose of carrying bills over weekends. However, for the Committee to announce that any dealer could come in over any weekend and automatically obtain funds from the Federal Reserve would relieve the banks of the necessity of taking care of dealers and would set a bad precedent, regardless of whether the amount of credit thus extended was small or large.

Mr. Szymczak doubted the advisability of making Federal Reserve credit automatically available to nonbank dealers through repurchase agreements, just as he felt it was undesirable to make Federal Reserve credit available to member banks at their initiative. He felt, however, that dealers had a right to expect to be able to get funds through repurchase agreements when they needed them.

Mr. Craft said that he was concerned about the increasing reluctance of dealers to bid in the weekly offerings of bills, that those with whom the subcommittee conferred last summer complained unanimously regarding their inability to carry a position in bills.

Mr. Sproul suggested the possibility of the Treasury changing the days of the week on which bills are bid for and delivered so that the dealer problem of carrying bills over the weekend might not bulk so large.

Chairman Martin said that there was a real problem in connection with this recommendation of the subcommittee and suggested that the subcommittee be requested to review it further in terms of the problem of orderly markets and of making reserve funds available on an automatic basis.

This suggestion was approved unanimously.

Recommendations

The subcommittee finds that relations between the Open Market Account and the dealers are not as impersonal as is desirable now that the Committee is no longer trying to peg prices and yields on Government securities by maintaining a tight rein on the activities of dealers.

(a) It recommends that the Open Market Account make known to the dealers the "ground rules" which henceforth will govern the occasions for its transactions with dealers.

It was agreed unanimously that, as indicated by the action taken in connection with the subcommittee's recommendation as to giving an assurance under "Relations with the Market", further study should be given to this recommendation. In taking this action, it was understood that the subcommittee would consider the matter in terms of what ground rules might be agreed upon, and whether and how such rules might be made known.

Mr. Szymczak stated that his understanding of the foregoing action was that there had been conclusive agreement that, unless changed by the Committee, operations would be conducted in accordance with the practices set forth in the "ground rules"; this action, therefore, related to how the import of such rules should be made known to the public.

(b) The subcommittee recommends that the individual morning dealer conference be abandoned.

Mr. Rouse stated that he could not understand the reason for the suggestion that the morning conferences be discontinued, that they were more convenient for the dealers and for the representatives of the account than if appointments were not made, that the conferences had been useful to both the manager of the account and the dealers, that no dealer had to attend a conference, that the dealers had been the ones who had sought the meetings in this manner. Mr. Rouse went on to say that while he found the conferences very useful, he would not want any dealer to feel that he was not being treated fairly, and that he would be glad to terminate the present arrangements for the conferences and permit them to start over if the dealers wanted them on their own initiative.

Thereupon, unanimous approval was given to the subcommittee's recommendation, it being understood that if any dealers wished to continue the morning conference, it would be on the dealers' initiative.

(c) The subcommittee recommends that the information obtained by the trading desk from dealers be so restricted as to eliminate the possibility of identification, directly or by inference, of individual customers.

This recommendation was approved unanimously, Mr. Rouse noting that the recommended practice was one which he had been trying to follow.

(d) The subcommittee recommends that reports on individual dealer positions and activity be collected by an officer of the System other than the manager of the account, that the individual reports be kept confidential, and that only aggregates compiled from the individual dealer reports be disclosed to the manager of the account.

At Chairman Martin's request, Mr. Rouse commented on this proposal stating that to the best of his knowledge the information received had never been used to the disadvantage of any dealer, that the information on individual dealers' positions was most helpful to the manager of the account and that to take it from him would be like asking him to handle the account "with one hand tied behind him", that the information was supplied voluntarily, and that he felt it should continue to be made available to the account manager.

In response to a question from Mr. Sproul as to whether there was widespread objection from dealers to giving this information, Chairman Martin said that the recommendation was not based on the views of dealers so much as the feeling of the subcommittee that it would be a protection to the manager of the account against any charge of misuse of the information.

Mr. Sproul then said the information is most useful from time to time, and that aggregates which might conceal individual long and short positions would not be so useful and could be misleading. He suggested that, if the information were furnished on a voluntary basis, there should be no objection to its collection, and Chairman Martin agreed.

Mr. Bryan felt that it was important to have the information available in aggregate form and that there might be a real question whether voluntary reports would provide satisfactory totals.

Mr. Sproul suggested that it be understood that, if the dealers were willing to furnish the reports on a voluntary basis, there would be no objection to continuing to collect the information in that manner.

> Mr. Sproul's suggestion was approved unanimously. In taking this action, it was understood that if the reports received on a voluntary basis did not seem to provide satisfactory aggregates, further study would be given by the executive committee to the question of the reporting procedure.

(e) The subcommittee recommends that the present practice of asking dealers to report transactions currently during the trading day in sufficient detail to permit the computation of current individual dealer transactions sheets be discontinued.

Mr. Rouse stated that it was not and had not been the practice of the New York Bank to ask dealers to report during the trading day in sufficient detail to permit computations of current individual dealer transactions. He said that traders on the desk do receive information on supplies of securities in the market which goes to the manager of the account and to the Committee's staff in Washington as a basis for judging the state of the market. Sometimes that information indicates that supplies are from savings banks or commercial banks, but ordinarily the information is of a general nature only.

There was unanimous agreement with Chairman Martin's statement that there appeared to be no objection to the practice described by Mr. Rouse; and that the practice referred to in the subcommittee's recommendation should be avoided.

Recommendation

The subcommittee finds that there is a serious gap in the structure of the money market as it affects the functioning of the market for Government securities. Continuously in recent months, funds available to dealers to carry portfolios have been inadequate in volume and available only at rates higher than the yield of their portfolios. This deficiency could not exist so continuously in a central money market equipped (1) to attract temporary idle funds from over the country to New York, and (2) to make these funds available on call to dealers in the money market. The subcommittee recommends that the feasibility of re-establishing a central call money post for dealers be explored.

Approved unanimously.

D. Federal Reserve Reports

Recommendation

The subcommittee finds that the Federal Reserve System can improve the data which it makes available to inform the market on its operations. It recommends that the following information be shown henceforth on the weekly condition statement of the Federal Reserve Banks:

(a) Securities held on repurchase agreement.

(b) Special certificates of indebtedness held by the System.

(c) Weekly averages of member bank borrowing.

In response to a question by Mr. Rouse, Chairman Martin and Mr. Craft stated that the idea of publishing such additional information had the general approval of the dealers with whom the subcommittee conferred last summer on the grounds that the segregation of repurchase figures would be helpful and should be a part of the information regularly made available through System publications. It was stated, however, that one of the 17 dealers who commented on the suggestion expressed hesitancy in having the information on repurchase agreements published, his feeling being that publication of the data might be open to misinterpretation.

Mr. Sproul stated that if the dealers did not object to disclosure of the extent to which they were using Federal Reserve credit in carrying bills, the Committee should not object.

Mr. Robertson felt that the information should be made public even though there were objections on the part of some of the dealers.

> Thereupon, the subcommittee's recommendations regarding the weekly condition statement of the Federal Reserve Banks were approved unanimously.

This concluded the consideration of the recommendations in the report of the ad hoc subcommittee. In a discussion of the procedure to be followed in connection with the actions that had been taken, Chairman Martin suggested that the staff be instructed to review the actions and report on the steps that would be necessary in the way of changing directives or issuing new directives to carry out changes in procedures agreed upon. It was understood that this procedure would be followed.

Mr. Bryan stated that he was somewhat disappointed in the discussion of the subcommittee's report because he felt there had been an inadequate discussion of the problems and underlying philosophies involved.

He said that he might wish to send to the individual members of the Committee a memorandum expressing his personal views on some of the underlying points which he felt had not been clearly or completely dealt with.

Chairman Martin stated that the Committee would be glad to receive from Mr. Bryan or any other members of the Committee or any President of a Federal Reserve Bank who was not now a member of the Committee additional comments he might wish to submit in writing.

Chairman Martin, in referring to the assistance which Mr. Craft had given to the ad hoc subcommittee in its work, stated that he would like to have it understood that Mr. Craft would be continued as a consultant so that his services would be available in the future work of the subcommittee from time to time.

> This suggestion was approved unanimously and, at Mr. Evans' suggestion, it was agreed that Chairman Martin should express the appreciation of the Federal Open Market Committee to Mr. Craft's employer, Guaranty Trust Company of New York, for the services he had given in connection with the study of the Government securities market.

Mr. Robertson suggested that it be understood that recommendations in the subcommittee report on which final action had not been taken be studied further by the subcommittee and brought before the Federal Open

Market Committee. It was understood that this suggestion would be carried out.

Thereupon the meeting adjourned.

Winfield W. Riefler
Secretary