A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Thursday, September 24, 1953, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Fulton
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Solomon, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Abbott, Hostetler, Peterson, Roelse, and Ralph A. Young, Associate Economists
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal Reserve Bank of New York

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

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

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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 11, 1953 were approved.

Chairman Martin stated that advice had been received from the Federal Reserve Bank of New York that Mr. Sproul had been selected as Manager pro tem. of the System Open Market Account to serve while Mr. Rouse is in Europe during the period approximately September 16 to October 28, 1953. Chairman Martin also noted that Mr. Sproul had been serving in this capacity since Mr. Rouse left for Europe on September 16.

> Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Sproul as Manager pro tem. of the System Open Market Account to serve during the period while Mr. Rouse is in Europe from approximately September 16 to October 28, 1953 was approved.

> Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee held on June 11, June 23, July 7, July 21, August 4, August 25, and September 8, 1953 were approved, ratified, and confirmed.

Before this meeting there had been sent to the members of the Committee a copy of a report prepared at the Federal Reserve Bank of New York covering operations in the System open market account from June 10 to September 18, 1953, inclusive. At this meeting Mr. Sproul presented a supplementary report covering commitments executed from September 21 to September 23, 1953, inclusive, and commented briefly on the reports, copies of which 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 open market account for the period June 11 to September 23, 1953, inclusive, were approved, ratified, and confirmed.

Chairman Martin referred to the action taken at the meeting of the Federal Open Market Committee on June 11, 1953 in connection with a proposed revision in the directives of the Federal Open Market Committee and its executive committee, at which time the matter was referred by the full Committee to the executive committee with the understanding that the latter would appoint two of its members to consider the proposal further. The executive committee, Chairman Martin noted, at its meeting on June 11 appointed Mr. Sproul and himself for this purpose and it was understood that the special committee would submit its recommendations to the members of both the full Committee and the executive committee.

Chairman Martin went on to say that in accordance with that action, further drafts of revised directives were prepared and considered. After reflection upon the entire matter and in the light of the various drafts that had been prepared, he said, Mr. Sproul and he felt that it was questionable whether much would be accomplished by further consideration of a revision at this time of the directives now in use. They felt, instead, that the full Committee and the executive committee might well continue to utilize the existing forms of directives, modifying them, of course, upon such occasions as circumstances may dictate. Accordingly, Chairman Martin said, the special committee recommended the continued use of the existing forms, with changes being made by the respective committees from time to time as special circumstances may indicate.

The recommendation of the special committee as set forth by Chairman Martin was approved unanimously.

Chairman Martin called attention to a memorandum prepared by Mr. Vest under date of September 10, 1953, with respect to the debt limit of the United States in relation to purchases by the Federal Reserve Banks of Government obligations. The memorandum had been prepared at the request of the executive committee at its meeting on August 25, 1953 and copies had been sent to all members of the Federal Open Market Committee. At the Charman's request, Mr. Vest summarized the content of the memorandum, stating that in his opinion obligations of the United States sold directly to Federal Reserve Banks would not be excluded from the statutory debt limit of the United States; and that if the Treasury should issue obligations in excess of that limit and if the Federal Reserve Banks should have some of the obligations which were issued in excess of the debt limit, they would be invalid and unenforceable obligations against the United States. Furthermore, Mr. Vest said, the memorandum indicated that there would be no difference between special certificates issued by the Treasury and an overdraft on the books of the Federal Reserve Banks since the authority for either type of obligation of the United States must be derived from the same statutes and, therefore, legally they were in the same category.

Mr. Sproul stated that this matter had been considered by Counsel of the New York Bank who had taken the position that any purchases which the New York Bank might make for the System open market account, or any overdraft which might occur at the New York Bank which would result in

United States Government obligations in excess of the statutory debt limit, would, as Mr. Vest stated, not represent valid or enforceable obligations.

Mr. Vardaman inquired whether this meant that in the event the New York Bank incurred an overdraft for the Treasury in excess of the statutory debt limit, the Treasury would be requested not to formalize the matter by issuing special certificates of indebtedness to cover the overdraft.

Mr. Vest stated that while he could not answer as to what a Federal Reserve Bank would do, it would be his opinion that the Bank should follows the normal procedure and get the special certificates since legally there would be no difference between holding that obligation and carrying an overdraft. The answer to the question might depend, Mr. Vest said, on whether the Treasury would be willing to issue such certificates if it found that, inadvertently, the overdraft had resulted in its exceeding the statutory debt limit.

Mr. Vardaman stated that he would not consider it desirable for a Reserve Bank to accept special certificates to cover an overdraft under such circumstances, even if the Treasury were willing to issue them.

Mr. Sproul stated that the position of Counsel for the New York Bank was that the legal position of the Bank would not be improved if it held an overdraft rather than taking the special certificates since in neither case would the Bank have a legally enforceable claim against the Government.

Chairman Martin noted that copies of Mr. Vest's memorandum had been made available to all Federal Reserve Banks for their information, and he stated that no further action was called for with respect to the matter.

At this point members of the staff of the Board's Division of Research and Statistics and Division of International Finance entered the room for a visual presentation on the current economic situation. A copy of the script of the presentation has been sent to each member of the Federal Open Market Committee and a copy has been placed in the Committee's files.

Following the presentation, the members of the staff who had entered the room for the purpose of assisting in its presentation withdrew from the meeting.

Chairman Martin stated that as had been brought out by the minutes of the meetings of the executive committee since the last meeting of the full Committee, open market operations had been arranged for in accordance with the general directive laid down by the full Committee at its meeting on June 11, which provided, among other things, that transactions for the System account should be "with a view to avoiding deflationary tendencies without encouraging a renewal of inflationary developments (which in the near future will require aggressive supplying of reserves to the market)." He noted that, in carrying out this policy, the executive committee at its meeting on September 8 agreed upon a program of "active ease", as described in the minutes of that meeting. This was being followed, he said, with the thought that the System would supply the reserves needed in the economy to meet the seasonal and growth demands even though they were large. It was felt that the risk of inflation was not sufficiently great to warrant being overly restrictive in the light of the adjustments that have been appearing on the fringe of the economy.

Chairman Martin then called upon Mr. Thomas who stated that in making projections of possible demands for Reserve Bank credit during the rest of this year it had been assumed that there would be an increase in the money supply, that is demand deposits-adjusted and currency, for the year 1953 as a whole of about 3 per cent. On the basis of this assumption of moderate needs, Mr. Thomas said, estimates of the amount of Reserve Bank credit that would be needed to supply the basic reserves had been made. Thus far, actual developments have been somewhat smaller than projected, he said, and in fact growth in demand deposits and currency has been only about seasonal with no element of long-term growth during the past six months. After commenting upon recent and projected changes in demand deposits and in the Treasury balance, Mr. Thomas said that the conclusion appeared to be that something like $1-1/2 billion of additional Reserve Bank credit would be required during the last four months of 1953 in order to provide for a 3 per cent growth in deposits and currency for the whole year. This could be supplied entirely by System purchases of Government securities, or in part by purchases (including repurchase agreements) and in part by member bank borrowings. Another way of supplying some of the needed reserves would be by a reduction in reserve requirements, and still another source of reserve funds would be provided if the Treasury were to use some of the free gold now held in its general balance.

Chairman Martin suggested that consideration now be given to the Committee's general policy, i.e., whether it should supply roughly the amount of reserves which Mr. Thomas' remarks indicated would be needed by the economy, after which there would follow a discussion of the way in which any additional reserves might be provided.

Mr. Sproul stated that his views and the estimates of the New York Bank were in general accord with the views and estimates presented by Mr. Thomas as far as the need for reserves was concerned. He said that whereas heretofore we have been following a policy of contributing to balance between inflation and deflation, it is now his view that policy should be based on an estimate of the business and credit situation which foresees the possibility of slipping into deflation, rather than the danger of inflation. This would indicate a policy of ease and not restraint of credit, one of supplying reserves needed to meet seasonal and growth factors. During the past few weeks, Mr. Sproul said, operations for the System account had pursued this objective, but a period of more severe testing will occur during October and November when other factors affecting the money market are estimated to take a considerable amount of funds out of the market. He noted that the way in which the Treasury may use its free gold may affect operations for the System account and, in a comment on the difficulty of making projections of operation for the System account, Mr. Sproul referred to the last paragraph of a staff memorandum dated September 21, 1953 on the outlook for Treasury cash requirements and bank reserves, copies of which were distributed before this meeting. This paragraph suggested that if demand deposits were to show a growth for the year 1953 of as much as 3 per cent, they would have to increase over $6 billion in the fourth quarter and that such a growth would mean an increase of about $650 million in required reserves in the last quarter of the year. The paragraph also mentioned probable large drains on reserves due to a currency outflow and possible gold losses; and stated that on the assumption that excess reserves would remain around $600 million, an expansion in Federal Reserve credit of approximately $1.3 billion would be required to meet needs for reserve funds over the remainder of the year, that more than two-thirds of this demand would probably occur during October and early November, and that if member bank borrowings were not to increase above the level of excess reserves, most of these needs would have to be supplied by means other than discounting. Mr. Sproul expressed the view that the needs at the end of the year when demand for currency would rise sharply could most appropriately be met by increasing discounts, but aside from that he felt that increased open market operations would be needed during the next few weeks.

With respect to the usefulness of the several estimates as a guide to operations for the System account, Mr. Sproul cautioned that, while such estimates tended to be borne out over a period of several weeks or months, they should not be looked upon as precise or accurate projections from day to day or week to week, and that operations would not necessarily conform with weekly estimates that might be projected for the period ahead.

Chairman Martin agreed as to the difficulty of day to day estimates of reserves needed. He pointed out, however, that what he was seeking at this time was a pattern with respect to the over-all amount that might need to be supplied between now and the end of the year. He asked whether any of the members of the Committee felt that operations would be overly tight if they moved in the general direction outlined by Mr. Sproul and in more or less conformity with the figures which Mr. Thomas had presented.

Mr. Riefler commented that the estimates presented by Mr. Thomas and in the staff memorandum assumed a somewhat tighter situation than might be indicated by the foregoing discussion, the figure of $1.3 billion of additional reserves was the approximate amount that would be needed to maintain a rough balance between borrowings and excess reserves. It was Mr. Riefler's thought that it might be desirable to have excess reserves above borrowings; therefore, he would look upon the $1.3 billion figure as the minimum additional reserves that probably would be necessary if borrowings were not to rise above excess reserves.

Chairman Martin stated that irrespective of the level of borrowings, he was seeking an indication of the Committee's views as to the approximate over-all amount of reserves that would have to be gotten into the market during the rest of the year. He asked whether any of the members of the Committee differed with the estimates presented by Messrs. Sproul and Thomas, or with the thought that the executive committee, in arranging for operations, should continue to pursue a policy of active ease in the market, having in mind the general estimates which had been cited regarding the amount of reserves to be furnished during the remainder of this year.

Mr. Mills stated that as he understood it this would contemplate that additional reserves would be provided in substantial amounts at an early date, that the operations of the Committee would not be frozen into any particular attitude as to the relationship between discounts and excess reserves, that there would be flexibility in the Committee's operations as directed by the executive committee, and that at the end of the year it probably would be desirable to meet the temporary heavy currency demands more largely through discounts than through open market operations.

Mr. Sproul said that the understanding stated by Mr. Mills, with which he agreed, would represent a modification of the idea that borrowings should be held down below excess reserves. The bulge in need for reserves at the end of the year, for instance, was one which properly and naturally accommodated itself to being met at the discount window, he said, if that window was kept freely open and funds were available. He felt that individual bank situations could be met in that manner more satisfactorily than through open market operations. He also noted that repurchase agreements represent a flexible instrument for meeting individual market situations.

Chairman Martin stated that another meeting of the full Committee probably would be held before the bulk of the year-end demand for currency appeared and that in the meantime the executive committee would be meeting from time to time. He suggested, therefore, that unless there was objection the full Committee approve a continuation of a policy of active ease with the understanding that reserves would be supplied to the market to meet seasonal and growth needs, having in mind the estimates of total needs as presented at this meeting and recognizing that open market operations would be flexible in relation to the volume and timing of supplies of reserves from other sources.

There was unanimous agreement with this statement of policy.

Chairman Martin then referred to the letter which Mr. Sproul had sent to members of the Federal Open Market Committee and to the Presidents of Federal Reserve Banks who are not currently members of the Committee under date of July 16, 1953. He also referred to a letter and enclosure which he (Chairman Martin) had sent to all members of the Committee and to all Presidents not currently serving on the Open Market Committee under date of September 15, 1953 with respect to confining operations for the

System account to the short-term sector of the market and to refraining from certain purchases of Treasury securities during periods of Treasury financings.

He then made a statement substantially as follows:

In introducing this subject today I feel I want to make a few comments as Chairman of the Committee with respect to my general view as to the necessity for the System grappling with what I conceive to be issues. I want to make very clear that I welcome the letter Mr. Sproul wrote on July 16, 1953, and I welcome similar letters from all members of the Open Market Committee at all times. The fullest and most open discussion we have in the Open Market Committee at all times of problems of this sort is to the benefit of all of us. I am also confident that none of us act on these problems as a face-saving device or for any reason other than to get the best answer. I, as Chairman, never ask anybody to vote with me unless their judgment indicates they conscientiously should do so. Nevertheless, it is sometimes necessary for us to disagree. There are times when you have basic differences of opinion.

After studying Mr. Sproul's letter of last July and thinking the matter over, I think there is more than a minor difference of opinion. There is a basic difference. I would like to say in commenting on this, that if you will review the minutes of the meeting last March you will see that I pretty well stated there the origin of the ad hoc subcommittee report in my thinking. It really goes back to a time four and one-half years ago when I first began to get a little on the fringe of this problem. Many of you, and Mr. Sproul in particular, have had more experience in actual operations of the open market account than I, but I was in the Treasury four and one-half years ago and began then to see some of the problems. A great amount of bitterness and acrimony can get into the situation when people say they would have done things differently. I confess that I would have done some things differently but I have tried to refrain from putting this into an area of individuals or particular operations.

The thing I like most about the Federal Reserve is the word "System". The first two words don't make much difference but "System" does. We are all working in the interests of the System in all that we are tying to do. The ad hoc subcommittee report was to assay the market in terms of the responsibility of each of the members of the Open Market Committee for what is a full operation at times. We were not trying to criticize anybody at any time. The essence of the problem we were struggling with was a matter of degree of discretion. Each member of the Open Market Committee is responsible in a very real sense for what is the heart of the System. I don't profess that I have all the answers, but I do think we want the Manager of the Open Market Account to have adequate discretion but don't want to put him in the position of having more discretion than is necessary; if we are going to give him wider discretion, then I think each of the members of the Open Market Committee ought to follow each of the details considerable closer than we do.

In my letter and memorandum I have concentrated on just two matters raised at the meeting in June, confining operations to short-term securities and refraining from certain transactions during periods of Treasury financings. With respect to the housekeeping and other matters placed in the hands of the ad hoc subcommittee, I think Mr. Sproul and the subcommittee ought to get together and review them. But in these two matters that came up in June--the confining of operations to short-term securities and refraining from transactions in certain securities during periods of Treasury financings--I would like to have a further discussion at this meeting.

It is true that we can call a meeting of the full Committee on 24 hours notice if we have to, and there is no intention at any time to freeze the Committee's views on these or any other matters. I think this is a very fundamental problem. The whole problem of a free market is a matter of degree. I think it is essential for us, if we are going to operate the type of device we have in the open market operations, that we get out on the table all of the issues, all of the problems we have, and discuss them. No one can read the future but I do think it is terribly important for us to have a framework within which to carry on our thinking. If we want to recede from a framework, let's do it as a Committee. Let's give the Manager of the Account all the discretion he must have in order to operate the account but let's not put him in the position of bearing the entire brunt and let's not put the entire Open Market Committee in the position of saying we have put the Manager of the Account in a position of responsibility and of our being just a defender of the fact that the Manager has carried out our instructions. I should like to have these questions out on the table for discussion. I know that I could make a motion from the Chair, but since Mr. Mills feels as I do on this question, I have asked him to present a motion along the lines of the action I think the full Committee ought to take at this meeting.

Mr. Mills then referred to the action taken at the meeting of the full Committee on March 4 and 5, 1953, when it was agreed that under present conditions operations for the System account should be confined to the short-end of the market (not including correction of disorderly markets) and at which meeting it was also understood that, pending further study and further action by the Committee, the Committee approved the ad hoc subcommittee 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 issue of comparable maturity to those being offered for exchange. These agreements, he noted, were rescinded by a 5 to 4 vote of the Committee at its meeting on June 11, 1953. Mr. Mills stated that in presenting the motion, he did so in the belief that the action of the market and the operations of the open market account had given a very convincing performance that the motion to be proposed was a proper policy for the System to adopt.

> Mr. Mills then moved that the Federal Open Market Committee take the position that operations for the System account be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further actionof the Federal Open Market Committee.

Mr. Szymczak seconded Mr. Mills' motion.

Chairman Martin suggested that Mr. Sproul open the discussion of Mr. Mills' motion, commenting that he knew Mr. Sproul struggled very vigorously for the views he held to be right, that he and Mr. Sproul agreed on many things, and that he was sure Mr. Sproul would not respect him if he did not struggle equally vigorously for the views which he held.

Mr. Sproul then made a statement substantially as follows:

1. My most recent letter and memoranda on open market operations were sent to the members of the Federal Open Market Committee (and potential members) on July 16, 1953. The Chairman's reply, dated September 15, 1953, states that certain of the matters I discussed are still pending before the ad hoc subcommittee, and he confines his statement to a consideration of two matters on which action was taken by the Committee in June to rescind action taken in March. I shall do the same.
2. Obviously there has not been time since the receipt of the Chairman's letter and memorandum last Wednesday, to pursue exhaustive staff studies and prepare an exhaustive rebuttal. This is probably an advantage. Too much of our discussion, perhaps, has been devoted to scoring debating points worked up by the staff of the Board and of the New York Bank.

   I have several pages of discussion here of the Chairman's letter and memorandum concerning open market techniques during the past several months. I am going to omit them and merely say that I disagree with his analysis and with his conclusions. Maybe all that indicates is that it is possible for two equally sincere people to draw different conclusions from similar experiences when dealing with the non-physical world.
3. If you clear out all of that underbrush it seems to me that the forest looms up pretty distinctly. I do not see much remaining difference of opinion, if we straighten out our assumptions.

4. It is not the position of the New York Bank, as the Chairman suggests, (A) "that the Management of the Open Market Account should be given blanket discretion to operate in the intermediate and long term, as well as the short-term sectors of the Government Security Market within general directives laid down by the Federal Open Market Committee and the Executive Committee."

It is not the position of the New York Bank that (B) "it should have (blanket) discretion during periods of Treasury financing to purchase maturing Treasury issues for which an exchange is being offered, when issued securities, and outstanding issues of comparable maturity to those being offered for exchange."

My position--and that of the New York Bank--is that the Federal Open Market Committee should lay down the general lines of credit policy, that the interpretation and direction of the policy under changing conditions is the job of the Executive Committee, and that the Executive Committee should give the management of the Account only such discretion as to execution of policy, including market techniques, as is necessary for effective performance of its job. In support of this, I may remind you that following the action of the Federal Open Market Committee in June, rescinding two of its March actions, it was I who pointed out to the Executive Committee that the purpose of my motion to rescind, was not to control the actions of the Executive Committee, but to restore its freedom to use its discretion within the general lines of policy laid down by the full Committee.

What I have been objecting to as a matter of principle--and still object to--is trying to write into a "constitution" of the Open Market Committee, as one member called it, a prohibition against actions deemed undesirable by particular members of the Committee, holding particular views, at a particular time. We can't afford a freeze of ideas or practices.

We who presently constitute the Committee, or a majority of the Committee, may agree that ordinarily it would be preferable to conduct our open market operations in short term Government securities, and that whenever possible we would like to stay out of the market at times of Treasury financing. But we shouldn't try to tie our hands by preventing the Executive Committee from using its judgment, within the limits of our general credit policy, in whatever circumstances may arise between meetings of the full Committee. While, as has been pointed out, a meeting of the full Committee can be quickly convened in these days of

> air travel, I do not think the full Committee can or will be brought together to decide questions of market techniques; it isn't the best way to operate and I doubt if we really intend to operate that way.
>
> It was to avoid this straitjacket of an imposed "constitution" that I proposed the June motion to rescind the March action on the two points at issue today. That was the purpose and that was the result of my motion.
>
> So far as I can see our present situation differs little, if at all, from the final views expressed by the Chairman in his letter. If we do not assume, first, that the Executive Committee cannot be trusted,and, second, that the New York Bank and the Manager of the System Open Market Account are so habituated by a long spell of price support that they will jiggle with the market regardless of their insturctions from the Executive Committee, that is where we come out. I don't think the first assumption is justified and the second, I think, is preposterous. Therefore, I would say that we are in agreement, as we stand, and that no further action is needed by this Committee at this time, with respect to the two items presented for discussion.
>
> One further word in an overlong presentation--in this job I think we need an "informed intelligence conscious of its (almost) infinite ignorance".

Chairman Martin stated that he subscribed heartily to Mr. Sproul's last comment.

Mr. Johns then made a statement substantially as follows:

> As you all know, at the June meeting I voted in favor of Mr. Sproul's motion to rescind the March actions on these two matters. Since that time I have been amazed and disappointed to find that my vote and the votes of those who voted as I did, have been construed by some as indicating that it was my desire to vest in the management of the account or the New York Bank a large and almost unlimited discretion. I respectfully submit that such was not the legal import of my vote and I am almost persuaded to suggest, as a member of the Supreme Court did some years ago when he said that it is precarious business to try to psycho-analyze Congressmen, that it was precarious business to try to psycho-analyze me and the motive behind my vote. What I did was intended to leave the executive committee a rather large

area of discretion within which to make decisions which are more than operating decisions and which involve considerable policy-making prerogatives. As I understand the motion Mr. Mills makes, the question I am presented with now is whether to continue to delegate such policy-making authority to the executive committee or whether to retain that prerogative in the hands of the full Open Market Committee.

I will admit that from the one point of view of good administration, it may be that such discretion can be more easily and possibly at times more quickly exercised by a smaller body such as the executive committee. However, I am not convinced that there is such lack of ease of administration in retaining that prerogative in the hands of the full Committee as might superficially appear. If, as usually is the case, the members of the Board of Governors, who are always members of the full Committee, are at their posts and Mr. Sproul is at his post and in constant communication with the offices of the Board of Governors, the fact is that there are only four Presidents to be called in order to obtain action by the full Open Market Committee. If the urgency of a situation is so great that a delay of 24 hours within which the Open Market Committee could convene and assemble around this table would be serious, I see no difficulty about getting in touch with the absent Presidents who are members of the full Committee on the telephone, and I suspect that in most instances that could be done within a period of 30 minutes.

I am aware of the fact that the executive committee of the Open Market Committee is a nonstatutory body. I have some doubt about the degree of discretion and policy making which can be, or at least ought to be, delegated to the executive committee. Therefore, Mr. Chairman, having attempted to psycho-analyze myself, which I think is perhaps more accurate than psycho-analyzing by others, I am prepared for the foreseeable future, which will probably extend for the duration of my present membership on the Open Market Committee, to accept the proposal that the authority to modify the general instructions be retained in the hands of the full Open Market Committee. I am, therefore, presently disposed to support Mr. Mills' motion.

Mr. Johns went on to say that he would like to ask a question concerning Mr. Mills' motion, namely, whether there was any implication of a connection between what the motion says and the proposal in the report of the ad hoc subcommittee to publicize so-called ground rules. Such publication, he felt, might inhibit or make more difficult a change in the policy proposed in Mr. Mills' motion.

Mr. Mills stated that the motion contained no such implication. He added that the booklet on the Federal Reserve System published by the Board of Governors was being revised and that while the discussion of open market operations would be written around the background of confining such operations to short-term securities, there would be nothing in the text to preclude purchases of securities of any maturity. Thus, there was no implication that there would be made public any statement of principles suggested by the ad hoc subcommittee or that any such statement would be given to members of the investment community.

Chairman Martin stated that the Committee should bear in mind that under section 10 of the Federal Reserve Act the Board of Governors was required to include in its annual report to Congress a record of policy actions taken by the Federal Open Market Committee and that this record would, of course, be made public in accordance with the statutory provisions.

Mr. Johns said that he had no objection to that procedure since it was a statutory requirement.

Mr. Robertson referred to the discussion at the meeting last March of the recommendation of the ad hoc subcommittee that the open market account make known to dealers in Government securities the "ground rules" which henceforth would govern the occasions for its transactions with dealers. At that time, he said, it was clearly understood that there would be no publication of such rules pending further consideration of what ground rules might be agreed upon and whether and how such rules might be made known.

Mr. Erickson said that he had given a great deal of thought to the subject of Mr. Mills' motion since the meeting of the Committee in June and that he felt very much as Mr. Johns had expressed himself. He wanted to be sure that there was enough flexibility so that action could be taken to deal with any situation that might arise, but considering all the circumstances, as they exist today, Mr. Erickson said, he would vote to approve Mr. Mills' motion.

Mr. Powell stated that he did not particularly like the motion presented by Mr. Mills because it put into language a continuing directive to the Open Market Committee concerning a subject which he felt should be a matter for consideration at every meeting of the full Committee and perhaps at meetings of the executive committee in the interim. He doubted whether there had been experience with enough different kinds of economic situations to enable the Committee to say its operations should remain in the short-term market except under most unusual circumstances. It would be better not to have such an expression as Mr. Mills proposed, Mr. Powell felt, unless it was in a form in which it would serve only between meetings of the full Committee. Mr. Mills' motion, he thought, was intended as a much more far reaching document and he, therefore, would not be disposed to vote to approve it.

Mr. Fulton said that at the time of the meeting of the Federal Open Market Committee last June he anticipated that operations for the System account would remain in the short-term sector of the market but he was apprehensive of having those operations frozen in so that the account could not operate in other parts of the market. In the meantime reserve requirements of member banks have been reduced, a move which had had a powerful effect in easing the market, and while he felt it still desirable that the executive committee have considerable latitude in carrying on operations, he agreed with the statments made by Mr. Johns to the effect that the full Committee could be brought together at least by telephone so that there did not seem to be danger that operations in the account would not have enough flexibility to meet any situation. On the whole, in view of these factors and because of the general situation as it appeared today and with the full expectation that the Federal Open Market Committee could change the action at any meeting, he would vote to approve the motion presented by Mr. Mills.

Mr. Evans stated that he would vote to approve Mr. Mills' motion, that he had studied the report of the ad hoc subcommittee carefully, that he agreed with the conclusions reached in that report, and that he felt the proposal now before the Committee was simply returning to the position taken by the full Committee last March after full discussion of the report.

Mr. Vardaman stated that had he been present at the meeting of the full Committee last June he would have voted against rescinding the action taken by the full Committee at its meeting in March, at which time it agreed that under present circumstances operations in Government securities should be confined to the short-end of the market. Because he still held this view, he would vote to approve Mr. Mills' motion. At the same time, he emphasized that he was in favor of giving the executive committee such operational latitude as was necessary so long as that latitude was not sufficient to enable the executive committee to conduct its operations in such a manner as to amount to policy decisions.

Mr. Robertson requested that Mr. Mills' motion be reread and, following the reading of it by the Secretary, stated that he would vote to approve the motion.

Mr. Szymczak stated that he had been unable to attend the meeting of the full Committee in June because he was in the hospital on that day, but if he had been present he would have voted against rescinding the actions taken at the March meeting on the two points under discussion. He noted that, at the meeting of the executive committee on June 23, he had expressed himself as believing that operations for the System account should be limited to Treasury bills. He felt that the full Committee should be constantly aware of the situation in the Government securities market and that whenever the situation was such as to call for a change of policy of the nature of shifting from purchases of short-term securities to other sectors of the market, such a change should be authorized by the full Committee. He, therefore, favored approval of Mr. Mills' motion.

Mr. Leedy stated that he was a little disturbed by Mr. Sproul's suggestion that decisions in such matters as were involved in Mr. Mills' motion might be delegated by the full Committee to the executive committee. He wondered what would be left for the full Committee if such decisions were to be turned over to the executive committee. Mr. Leedy noted that, as Mr. Johns had stated, the executive committee is not a statutory body; it was set up by the full Committee as an operating committee and, while it has a wide responsibility as to executing operations, he felt that it should not have responsibility for adopting fundamental policy decisions. In Mr. Leedy's opinion, decisions of the sort involved in Mr. Mills' motion were of fundamental importance.

Mr. Williams stated that he was somewhat concerned lest the formal nature of Mr. Mills' motion and the attendant discussion might give the Committee's action an air of permanence that it otherwise would not have. The full Committee, he noted, has power to make any change at any meeting, and the extended discussion of Mr. Mills' motion and the formal nature of the motion should not give the action to be taken an importance out of proportion to what it should have.

Mr. Vardaman stated that he would have no hesitation in changing this or any other action of the full Committee at the next meeting or any other subsequent meeting if that seemed appropriate at the time, and he noted that the last clause of Mr. Mills' motion--"that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee"--seemed clearly to indicate that the action proposed was subject to change by the Committee at any time.

Mr. Robertson stated that this was the very point which had caused him to request a rereading of Mr. Mills' motion, that he, too, had felt concern along the lines indicated by Mr. Williams, but that the rereading of this clause in the motion satisfied him that the matter was properly covered.

Mr. Williams stated that he certainly did not intend to indicate an objection to the motion, that in June although not a member of the full Committee, he had taken the position that the policies adopted in March should be looked upon as experimental in nature, and that he still felt that the Committee should look upon a policy such as that proposed in Mr. Mills' motion as experimental.

Chairman Martin stated that there was no intention, in raising this question or in presenting Mr. Mills' motion, to bind the Committee in any way that would not be binding in connection with any other decisions of the Committee.

Mr. Sproul stated that Mr. Williams had expressed very well the question in his mind. Taking the background of the whole discussion, the content of the ad hoc subcommittee report, and the discussion at the meeting last March, he felt there was an implication of permanent policy in Mr. Mills' resolution which, despite the clarifying clause at the end of the motion, tended to inhibit the free and flexible consideration of the problem by either the full Committee or the executive committee. This carried with it, he said, the implication of "writing a constitution" for the open market operation, of setting down a policy which, under only the most extraordinary circumstances, could or should be changed. He felt this was the wrong atmosphere to create for the executive committee, and he found it difficult to see what change had occurred to cause a shift in the views of some of the members of the full Committee since last June which would warrant putting into the record a formal motion such as that proposed by Mr. Mills.

Mr. Szymczak noted that the full Committee included all members of the Board of Governors and five Presidents of the Federal Reserve Banks, not all of whom were equally close to the market or to the detailed operations of the System account. For that reason, he felt it much better for matters of this type to be brought to the attention of the full membership of the Committee so that each individual would be kept alert regarding a subject for which he had a responsibility, and so that he would have an opportunity to express himself on any policy to be established. Mr. Szymczak also expressed dislike for reaching decisions on the basis of a closely divided vote such as had taken place at the full Committee meeting in June when some of the members were not present, and at the subsequent meeting of the executive committee. If there were to be differences of opinion on policy matters, he felt it much better to have the questions fully discussed at a meeting when all members of the Committee and the Presidents who were not members could be present, in an attempt to find out the best course to follow.

Mr. Johns stated that he had no fear that passage of Mr. Mills' motion would in any way limit the full Committee in changing the policy. If any member of the Committee felt the policy ought to be changed between full Committee meetings, he would have an opportunity and responsibility to make his views known. As for reasons for a change in his views since June, Mr. Johns said that, as first alternate, he had been called upon to serve almost continuously as an active member of the executive committee during the past few months, and that experience had made him feel the change in authorization was desirable. During that period, Mr. Johns said, he would have been most uncomfortable to have taken the action of authorizing operations in securities other than Treasury bills without having had the benefit of consultation with the other members of the full Committee. Out of this experience had come the conclusion that decisions in such matters should be left to the full Committee.

Mr. Leach stated that the only aspect of the motion which he did not like was the air of permanence to which Mr. Williams had referred. His conception of the Open Market Committee, he said, was that it did not make public statements of its policies and that it would not take a position indicating that it had set any particular policy from here on out. The fact that some of the members of the Committee attached so much importance to the subject under discussion indicated to him that the decision was being regarded as a matter of permanent policy.

Mr. C. S. Young stated that he shared and believed what Mr. Johns had said about the executive committee, that for the first time in years he was now hearing that the Federal Open Market Committee was an active body. He would like to see the full Committee have a little more authority than it had had and would like to have the members feel that they were an active part of the open market operation. Mr. Young said he could see no grounds for fears in Mr. Mills' motion and was inclined to feel that its adoption would make the members of the full Committee feel that they were more a part of the management of the open market account than they had been. He agreed wholeheartedly with the statements Mr. Johns had made.

Mr. Sproul said there was no question of a policy different from that being followed being authorized by the Open Market Committee as a whole if the resolution proposed by Mr. Mills was adopted; it was a question whether the full Committee, with all the background of the discussion, wanted to put into the record this prohibition on the actions of the executive committee. He felt such a prohibition was unnecessary and undesirable. Since June, the executive committee had operated within the lines of policy of the Open Market Committee and within the lines proposed by Mr. Mills' motion. His objection was to making this a matter of formal record which he felt would give to the recommendations of the ad hoc subcommittee an air of being a permanent part of policy of the full Committee as though such policies were being "written in tablets of stone".

Chairman Martin stated that he felt sure the minutes of this meeting would make it clear that no tablets of stone were being written.

> Thereupon, Mr. Mills' motion was put by the Chair and carried, Messrs. Martin, Erickson, Evans, Fulton, Johns, Mills, Robertson, Szymczak, and Vardaman voting "aye", and Messrs. Sproul and Powell voting "no".

Mr. Riefler referred to the understanding earlier in the meeting as to the policy to be pursued in supplying reserves to the market until the next meeting, and to the wording of the existing directive to the executive committee covering transactions in the System open market account. He suggested that, in view of the policy agreed upon at this meeting, it would be desirable to change the instruction in clause (b) that such operations should be with a view "to avoiding deflationary tendencies without encouraging a renewal of inflationary developments (which in the near future will require aggressive supplying of reserves to the market)." During the ensuing discussion, it was agreed that this clause should be modified to delete all the words following "tendencies" so that the clause would read "to avoiding deflationary tendencies".

Mr. Sproul stated in response to a question from Chairman Martin that he felt the existing limits in the directive would be adequate for the present.

> Thereupon, upon motion duly made and seconded, the following directive 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 (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to avoiding deflationary tendencies, (c) to correcting a disorderly situation in the Government securities market, and (d) 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.

There was a discussion of the next date for the meeting of the Federal Open Market Committee and, while no definite date was set, it was understood that it probably would be held during the week beginning December 14, 1953. (Later in the day, at the joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks, it was agreed that the next meeting of the Federal Open Market Committee would be held on Tuesday, December 15, 1953.)

> Secretary's note: At the meeting of the executive committee of the Federal Open Market Committee held immediately following this meeting, and at the joint meeting of the Board of Governors and the Presidents of all Federal Reserve Banks held later in the day, Chairman Martin reported that the Secretary of the Treasury had indicated informally that it was expected that approximately $1 billion of free gold carried in the Treasury's cash balance would be used during the fall months of this year, one of the purposes of such use being to enable the Treasury to meet necessary payments within the $275 billion statutory debt limit. Chairman Martin also noted that, depending upon how this gold was used by the Treasury, it would affect the amount and timing of open market operations.

Thereupon the meeting adjourned.

Winfield W Riefler
Secretary