A meeting of the executive committee 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, October 4, 1951, at 12:20 p.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. A. H. Williams
Mr. Powell, Alternate Member

Mr. Norton, Member, Federal Open Market Committee

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Riefler, Assistant to the Chairman, Board of Governors
Mr. Young, Director, Division of Research and Statistics, Board of Governors
Mr. Solomon, Assistant General Counsel, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Ralph F. Leach, Economist, Division of Research and Statistics, Board of Governors
Mr. Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on August 27, 1951, were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account, as reported to the members of the committee for the period September 25 to October 3, 1951, inclusive, were approved, ratified, and confirmed.

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the executive committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; provided that the total amount of securities in the account at the close of this date shall not be increased or decreased by more than $1 billion exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction;

(2) To purchase direct from the Treasury for the System open market account such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held in the account at any one time shall not exceed $750 million.

In taking this action it was understood that the limitations contained in the direction include commitments for purchases and sales of securities for the System account.

Question was then raised as to the instructions to be issued to the Federal Reserve Bank of New York in connection with short-term interest rates. Mr. Rouse referred to the understanding at the meeting of the committee on September 25 that, pending completion of the refunding of the

October 15 and November 1 Treasury notes, the bill rate should not be permitted to increase to a point where it would affect adversely the 1-7/8 per cent rate on the outstanding April 1 and July 1, 1952, issues of Treasury certificates. He stated that the bill rate was maintained at 1.65 or less during this period so that it would not impinge on the refunding, that the refunding would be completed today, and that the committee might now wish to consider the situation that had been discussed at the meeting of the full Committee this morning, that is, whether to permit interest rates to rise in response to the pressures that were resulting from earlier actions taken to restrict the supply of reserve funds.

In response to a question from Chairman Martin as to how high the rates might go, Mr. Rouse stated that on the assumption that there would be very little additional need for reserve funds to be supplied by the Federal Reserve System in the immediate future, short-term rates should not increase greatly above the present level, which was 1.65 per cent on bills. He felt that the prime rate on commercial loans might increase to 2-3/4 per cent or even to 3 per cent.

Chairman Martin stated that he did not like the idea of a pegged bill rate, that the present rates had a necessary correlation with the Treasury refinancing operation, and that with the end of the present refinancing operation he felt the System should revert to a period of watchful activity and not continue to peg the bill rate. There was general agreement with this position.

There followed a discussion of the recommendations which the committee might make to the Treasury with respect to new money financing during the next two or three months, during which Mr. Sproul emphasized that he was concerned that Treasury borrowing be gotten out of the way as promptly as possible in order that the Open Market Committee might be more free to pursue whatever credit policy might be appropriate in the light of subsequent developments. For this reason, he felt that new money should be obtained promptly by the Treasury in the amount of approximately $1,500,000,000 through an issue of tax anticipation bills to mature in March 1952, and to be acceptable in payment of income taxes on March 15, 1952. In this connection, it was stated that there was some indication that members of the Treasury staff felt it would be preferable to issue a series of tax anticipation bills, perhaps at the rate of $500 million weekly. In discussing this question, however, it was the consensus that it would be desirable from the standpoint of the System's open market operations to have the entire financing plans announced at one time and to have that done as promptly as possible. It was also suggested that a considerable part of a $1,500,000,000 issue of tax anticipation bills would, if payment by tax and loan account were allowed, be purchased initially by banks which would make a secondary distribution, perhaps at a small loss, to corporations who might wish to secure the bills for use in meeting tax liabilities next spring.

At the conclusion of the discussion, Mr. Sproul moved that the committee recommend to the Treasury that it offer at this time an issue of tax anticipation bills in the amount of approximately $1,500,000,000, such bills to mature in March 1952 and to be acceptable in payment of income taxes on March 15, 1952.

Mr. Sproul's motion was approved unanimously, with the understanding that a letter for Chairman Martin's signature would be prepared in the light of the discussions at this meeting and at the meeting of the full Committee earlier today transmitting the recommendation and the reasons therefor to the Secretary of the Treasury.

Secretary's note: In accordance with the foregoing action, a letter and accompanying memorandum were sent to Secretary of the Treasury Snyder under date of October 5, 1951, reading as follows:

"After a discussion of the economic outlook and of credit policies by the Federal Open Market Committee in a meeting with other Reserve Bank Presidents not now represented on the Committee, the Executive Committee gave consideration to recommendations that it might make to the Treasury with respect to new-money financing during the next two or three months.

"Of various alternative means considered, the Executive Committee believes that the best means of obtaining the new funds needed in this period would be through offering for bids on a discount basis two issues of Treasury bills to mature within the week after March 15 and June 15, 1952, respectively. The bills would be accepted at face value in payment of taxes on the respective tax-due dates. They could be bid for by banks for their own account or for customers and be paid for by credits to Treasury tax and loan accounts.

"We would suggest that the first issue of the bills be offered in an amount of about 1.5 billion dollars, be dated around October 22, and mature in March. The second issue in an amount to be based upon needs as they appear at the time could be offered in the latter part of November. Further discussion with respect to these recommendations is given in the attached memorandum.

"During the past three weeks, in supporting the recent Treasury refunding operations at a time of other heavy demands on the money market of a largely temporary or seasonal nature, the Federal Reserve has had to purchase about 1 billion dollars of short-term Government securities. These transactions, we believe, have supplied more reserve funds than may be required to meet reasonable credit needs in coming weeks. It will be difficult to absorb the excess. We would hope, therefore, that you could complete the first stage of your new-money financing as promptly as possible."

"Discussion of New Treasury Financing Problem
by Executive Committee, F. O. M. C., October 4, 1951

"Treasury requirements for new market financing during the last quarter of 1951 will total between two and three billion dollars. The prospective Treasury cash surplus during the first quarter of 1952 indicates that most or all of this new borrowing could be repaid within the fiscal year ending June 30, 1952.

"For its immediate cash financing, the Treasury probably will need to rely on short-term securities, as there seems little early prospect of a substantial demand for longer-term issues at current rates. One or two of the following new borrowing instruments may be used:

"(1) Further increases in the regular weekly bill offerings.
"(2) Tax-date bills maturing in March and June 1952.
"(3) Tax-date certificates.
"(4) Other certificates or notes.

"The market for regular bills has been saturated, at least temporarily, by the increases over the past several months. It would probably not be desirable to use this source for new funds for the next month or two. It is uncertain what the demand for a short-term note would be, particularly among nonbank investors, but it is unlikely that it is very broad at this time.

"Bills or certificates maturing in March and June 1952 would appear to offer the best possibilities of attracting a maximum of nonbank money. Such securities should have maturity dates within a few days after the actual tax payment dates and carry the provision that they could be turned in for payment of taxes on the preceding tax date. Corporations could be expected to favor such securities since bookkeeping practices allow them to show tax-payment securities as a reduction in liabilities rather than as "assets, a feature particularly important over the year-end statement period.

"With respect to tax-date certificates, it would be awkward to name a coupon for 5-month to 8-month securities. With a bill, no close prejudgment of the market (selling price) for the security is involved with an issue sold at auction. Actually, it is likely that the Treasury would get a slightly better average rate on a bill, since the highest rate accepted for bills would presumably be equal to or perhaps lower than the coupon that would be needed to sell the same amount of securities.

"Competition for funds on the part of all borrowers is expected to increase in the months ahead. It is considered particularly desirable, therefore, that the Treasury make an early cash offering in an amount which would cover at least half of its borrowing needs in the remaining months of the calendar year. Such an offering, possibly in the amount of 1-1/2 billion dollars, might be announced on or shortly after October 15. The proposed bill issue would be in the form of a single maturity falling due shortly after the March 15 tax date, but receivable for taxes on March 15 at par.

"A 5-month Treasury bill offered in the amount of 1-1/2 billion dollars would be well received by the market particularly if payment could be made by the commercial banks through credit to tax and loan accounts. This arrangement would encourage banks to underwrite the issue in order to obtain the tax and loan deposits and, while initially some reliance will have to be placed on bank credit, secondary distributions from bank to nonbank investors would proceed smoothly.

"A large and early offering would have positive advantages over several smaller issues spaced out over time. With the latter, there would be a tendency for investors either to defer purchases or to bid at a high rate, feeling safe in the knowledge that other offerings would follow.

"When the Treasury goes to the market for the first portion of this borrowing, it would be desirable to give the investing public some rough indication of the total borrowing expected during the full period. If this were done, investors would be able to appraise realistically the total market effect of such borrowing rather than bidding hesitantly on a portion of the total with the feeling that unlimited amounts of borrowing must still be done. It should only be necessary to indicate some range of total requirements; definite commitments as to dates and types of borrowing need not be made."

It was agreed that the date for the next meeting would be subject to call by the Chairman.

Thereupon the meeting adjourned.

S Carpenter

Secretary.