

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 Friday, May 9, 1952, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Hugh Leach  
Mr. Powell  
Mr. Mills, Alternate for Mr. Vardaman  
Mr. C. S. Young, Alternate for Mr. Sproul

Messrs. Evans, Robertson, and Szymczak, Members of the Federal Open Market Committee

Mr. Riefler, Secretary  
Mr. Thurston, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Thomas, Economist  
Mr. Rouse, Manager, System Open Market Account  
Mr. Sherman, Assistant Secretary, Board of Governors  
Mr. Ralph F. Leach, Economist, Division of Research and Statistics, Board of Governors  
Mr. Youngdahl, Acting Manager, Securities Department, Federal Reserve Bank of New York  
Mr. Willis, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee held on April 4 and April 21, 1952, were approved.

Before this meeting, there was sent to each member of the committee a report prepared at the Federal Reserve Bank of New York covering open market operations during the period April 21 to May 6, 1952, inclusive. At this meeting Mr. Rouse presented a supplementary report which stated that there were no transactions in United States Government securities on May 7 or 8, and that total holdings in the System open market account on a commitment basis at the close of May 8 remained at \$22,329,202,000, unchanged from May 6, 1952.

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Mr. Rouse also commented briefly on that portion of the report with respect to the reallocation of participations in the System open market account as effected on May 1, 1952, in accordance with the formula approved by the Federal Open Market Committee at its meeting on December 9, 1947. The reason for the reallocation at this time was the divergence of actual net earnings of the Reserve Banks from the estimates, caused primarily by (1) the allocation as of January 1, 1952, having been based on budget estimates of gross expenses before allowing for reimbursements, and (2) addition to the New York Bank's net budget of \$753,000 as accepted by the Board of Governors April 14, 1952. In this reallocation, estimates for earnings other than on the open market account and for accrued dividends were based on the experience of the first quarter of 1952 rather than on prior periods.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period April 19 to May 8, 1952, inclusive, and the reallocation of participations in the System open market account effective May 1, 1952, were approved, ratified, and confirmed.

Chairman Martin stated that in accordance with the understanding at the meeting on April 21 arrangements had been made for the employment of Mr. Robert H. Craft, Vice President and Treasurer of Guaranty Trust Company of New York, as a consultant in connection with the study of the Government securities market to be undertaken by an ad hoc subcommittee of the Open Market Committee. He went on to say that at a meeting yesterday

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the Board of Governors approved an arrangement under which it would reimburse Mr. Craft for travel costs during a period of approximately four months beginning May 19, 1952, while he served as Technical Consultant to the Federal Open Market Committee. In the event Mr. Craft's present employer should wish to receive reimbursement for Mr. Craft's salary and retirement system contributions during the period of his service, it was expected that reimbursement for those sums would be arranged for in the same manner as travel expenses. Chairman Martin stated that Mr. Kleitz, President of Guaranty Trust Company, had assured him in a letter dated May 1, 1952, that Mr. Craft would be relieved entirely of his responsibilities at the Guaranty Trust Company during the entire period in which he served as consultant in connection with the Federal Open Market Committee study.

Chairman Martin stated that for membership on the ad hoc committee, in addition to himself, he would appoint Mr. Malcolm Bryan and Mr. Abbot L. Mills, Jr., unless there were objection to those appointments.

None of the members of the Federal Open Market Committee who were present indicated objection to the appointments of Messrs. Bryan and Mills.

At Chairman Martin's request, Mr. Riefler reviewed briefly suggestions that had been received in connection with the outline of the study to be made, stating that, in accordance with the understanding at the meeting on April 21, copies of the outline had been sent to all members of the Federal Open Market Committee and to the Reserve Bank Presidents who were

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not now members of the Committee. Their suggestions fell primarily into three categories, Mr. Riefler said, those relating to factors governing the demand for public securities, the handling of public trust funds, and the handling of investments for foreign account by the Federal Reserve Bank of New York. Mr. Riefler added that a copy of the outline and the suggestions submitted had been turned over to Mr. Craft, and that it was anticipated that he would have his suggestions for changes in the outline when he commenced his services as consultant about May 19.

Chairman Martin said that he felt it would be desirable to have another meeting of the executive committee shortly after Mr. Craft commenced his work, and it was agreed that the next meeting of the committee would be set for Friday, May 23, 1952, at 10:30 a.m.

Chairman Martin stated that in connection with the study to be made by the committee it would seem desirable for Mr. Craft to have access to all records of the Federal Open Market Committee including any policy decisions during the period of his service. This would include the minutes, files, and observance of operations of the System open market account as well as freedom to attend meetings of the committee if that seemed desirable. He stated that while he had complete confidence in Mr. Craft's discretion and integrity he was raising the question as this meeting in case any member of the committee felt that Mr. Craft's access to open market material should be limited.

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All members of the committee who were present agreed that Mr. Craft should be given complete access to open market data during the period of his service in connection with the study.

Mr. Thomas commented briefly on the economic situation, stating that there seemed to be an unusual number of uncertainties affecting the economic outlook and the money market; those included the steel-wage controversy, Congressional action with respect to expenditure authorizations, rate of further increase in defense expenditures, effect of suspension of Regulation W and the Voluntary Credit Restraint Program, and reception of the new Treasury savings bond program and the offering of 2-3/4 per cent bonds. Economic activity was continuing at about the same level as a month ago, prices were steady, money markets were firm but not tight, and credit demands were moderate. There was no evidence that the situation had changed much since the last meeting of the committee.

There followed a general discussion of open market operations in the light of the policy of neutrality as discussed at the meeting of the full Committee on March 1, 1952, and at the meetings of the executive committee on April 4 and April 21. There was also a discussion of the revised savings bond program announced by the Treasury on April 29, 1952, and of the cash and exchange financing announced on April 30, 1952, at which time it was stated that on May 19 there would be offered for subscription for a limited period additional amounts of 2-3/4 per cent Treasury bonds,

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investment series B - 1975-80, which could be paid for in full by cash, or not less than one-quarter in cash and the remainder by exchange, par for par, of any of the four longest 2-1/2 per cent restricted bonds now outstanding. The investment series bonds are nontransferable but convertible at the owner's option into 1-1/2 per cent 5-year marketable Treasury notes. In addition, there was general discussion of the type of Treasury financing that might be desirable during the remainder of this year. At the conclusion of the discussion, it was the consensus that no change in the committee's instructions relating to open market operations was called for at this time, and there was agreement with Chairman Martin's suggestion that no modification should be made in the existing understandings with respect to the conduct of such operations by the Federal Reserve Bank of New York.

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

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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 \$1 billion.

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.

Thereupon the meeting adjourned.

  
Secretary.