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 on Tuesday, February 10, 1953, at 10:30 a.m.

PRESENT: Mr. Sproul, Vice Chairman
Mr. Hugh Leach
Mr. Mills, Alternate
Mr. Evans, Alternate
Mr. Szymczak, Alternate

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. R. A. Young, Associate Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Youngdahl, Assistant Director, Division of Research and Statistics, Board of Governors
Mr. R. F. Leach, Acting Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Willis, Assistant Secretary, Federal Reserve Bank of New York
Mr. Daane, Assistant Vice President, Federal Reserve Bank of Richmond

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held in Washington on January 27, 1953 were approved.

Before this meeting there was sent to the members of the committee a report of open market operations covering the period January 27 through February 5, 1953, inclusive. At this meeting Mr. Rouse presented and commented briefly upon a supplemental report covering commitments from February 5 to February 9, 1953, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

> Following a brief discussion of the reports presented by Mr. Rouse, upon motion duly made and seconded and by unanimous vote, the transactions in the System open market account for the period January 27 to February 9, 1953, inclusive, were approved, ratified, and confirmed.

At Mr. Sproul's request, Mr. Thomas commented briefly along the lines of a memorandum prepared by the staff under date of February 6, 1953 with respect to recent economic and credit developments, copies of which had been distributed before this meeting. Mr. Thomas stated that the current economic situation continued to be characterized by high and rising production and a good volume of sales, a high degree of optimism, and somewhat mixed adjustments in prices. With respect to the credit situation, Mr. Thomas noted that contraction in business loans since the first of the year apparently had been somewhat less than seasonal, while there had been a continuing expansion in consumer and real estate loans. During this period, however, banks reduced rather sharply both their security holdings and loans on securities, and there was considerable tightness in the money markets. The prospects are, Mr. Thomas said, that this pressure will continue since there is nothing in the picture that will make it possible for banks to reduce their borrowings from the Federal Reserve Banks to any great extent during the next few weeks.

Mr. Sproul then referred to the staff memorandum dated January 5, 1953 on "A Program for Debt Refunding", stating that while he understood the memorandum had not been discussed at the preceding meeting of the executive committee, it had been in the hands of all members of the Federal Open Market Committee for several weeks, that some members had submitted comments regarding the memorandum, and that it would be appropriate at this meeting to have an expression of views concerning the proposals. Mr. Sproul went on to say that in his opinion the emphasis in such a memorandum should be on the principles of debt management rather than on any particular program for debt management, and that he felt the memorandum had served a purpose in focusing attention on the kind of program of debt management which would be consistent with credit policy. In response to a question from Mr. Mills, Mr. Sproul added that he concurred in the general principles outlined in the memorandum, as a broad framework for a type of fiscal and refunding program that would be consistent with the Federal Reserve System's responsibilities for credit policy.

Mr. Hugh Leach raised a question as to the implications in that part of the memorandum which suggested that there should be an adequate volume of short-term securities to meet the basic liquidity requirements of banks, financial institutions, corporations, and others without giving excess liquidity, and Mr. Riefler responded that the members of the staff had no intention of suggesting that the supply of short-term securities should be such as to give everybody just what was wanted, but that there were liquidity needs that should be met and that the memorandum had attempted to point out that there is a minimum quantity of short-term securities which should be kept in the market, the exact amount of which could only be determined through experimenting.

During a further discussion, Mr. Sproul suggested that the memorandum be revised in the light of comments received and that it be submitted to the full Committee at the meeting in the first week of March as something the executive committee had discussed and was presenting to the full Committee for its information.

This suggestion was approved unanimously.

Mr. Sproul stated that since it was understood that the next meeting of the Federal Open Market Committee would be held during the week beginning March 2, 1953, he assumed there would be no meeting of the executive committee in the meantime and that, accordingly, discussion of open market operations at this meeting should contemplate the period between now and the first week of March. There was agreement with the suggestion that the next meeting of the executive committee should be held in the week beginning March 2, 1953.

With reference to open market operations, Mr. Sproul stated that it seemed to him that the business and credit situation indicated a precarious balance between inflationary and deflationary pressures. This suggested to him a continuation of the Committee's present policy of keeping a measure of restraint on the expansion of bank credit without taking positive action to bring about a deflationary movement in the volume of credit, and certainly without taking action to ease the situation. In terms of the actual operations in the account, Mr. Sproul said this would seem to mean "rolling with the punches", reacting to whatever happened to other factors affecting reserves in such manner as seemed appropriate at the time. For example, if Reserve Bank float were to put funds into the market, it might be appropriate to allow holdings of securities to run off or to sell some bills; on the other hand, if gold movements took funds out of the market, it might be appropriate through repurchase agreements or otherwise for the System to put funds into the market.

In response to a question from Mr. Szymczak as to whether, in bidding for bills next week, Mr. Sproul would contemplate entering bids so as to allow System holdings to decline, Mr. Sproul stated that he would take no positive action to lose bills, that he felt the committee should enter a bid at about the average rate indicated in the market which probably would mean that it would about replace maturing holdings, but that you could not tell in advance precisely what the results of the bids would be. With respect to a question from Mr. Mills, Mr. Sproul stated that his general approach would include keeping member bank borrowings at the Reserve Banks about where they now are, letting that be a measure of restraint so that any reserves resulting from a temporary ease would not become embedded in the credit structure through additional loan extensions by banks; in other words, it would be preferable to absorb reserves by letting System account holdings run off rather than to have banks reduce their borrowings. Mr. Sproul went on to say that he thought the only question, and it was a fairly minor question, was whether the operations of the System account should tend a little on the tight side or whether they should tend in the direction of easing money market conditions. For himself, Mr. Sproul did not think it desirable at this time to attempt to bring about any great change in the money market, although it would be preferable to tend on the tight side rather than toward ease.

Messrs. Mills and Szymczak felt it would be preferable to continue the market just about as it is; Mr. Hugh Leach felt there should not be any positive action to make the market tighter or easier; and Mr. Evans said that he would prefer that operations be carried on with the view to staying a little bit on the tight side.

Mr. Mills in further discussion said that he would prefer to let Reserve Bank discounts run down rather than to have the System account sell securities in the market unless a very marked ease developed.

At the conclusion of the discussion, it was understood that operations in the System account would be conducted in the light of the discussion, with a view to interfering as little as possible with the money market during the next three weeks.

With respect to the general direction to be issued to the Federal Reserve Bank of New York, Mr. Rouse suggested that the existing instruction be renewed without change in its terms or limitations.

> 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 in the open market or, in the case of maturing securities, by direct exchange 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 System account (including commitments for the purchase or sale of securities for the account) at the close of this date shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) 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 excees in the aggregate $1 billion.

Mr. Mills then inquired as to the response of the money market to the recent change in Reserve Bank discount rates, and Mr. Sproul stated that the reaction had been just about what he hoped it would be, that it was not taken as a sign that the Federal Reserve System saw fresh inflationary developments which it wanted to head off but rather was taken for what, in fact, it was, that is, a reflection of what the open market policy had already accomplished in terms of bringing restraint on banks and tightening of the credit situation: the discount rate was simply being brought in line with changes that had taken place in the market in response to open market operations. Mr. Sproul also felt that the change in discount rate had been received very well in terms of the Treasury's recent refinancing in that it had removed a reason for uncertainty just prior to announcement of the offering. Mr. Sproul also noted that the refunding totaling almost $9 billion had been accomplished without System support or intervention, with no difficulty on the part of the Treasury, and with the smallest attrition on any Treasury refunding in many years.

Thereupon the meeting adjourned.

Winfield W. Riefler

Secretary