

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 Tuesday, November 13, 1951, at 4:05 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thomas, Economist
Mr. Vest, General Counsel
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. 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 Depart-
ment, 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 September 25 and October 4, 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 October 4 to November 12, 1951, inclusive, were approved, ratified, and confirmed.

Chairman Martin referred to the memorandum prepared by the Research Committee on Government Finance under date of September 28, 1951,

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on how the defense bond program can be strengthened, copies of which were sent to the members of the Federal Open Market Committee prior to its meeting on October 4, 1951. He stated that, in accordance with the action taken at the meeting of the Committee on October 4, 1951, the purpose of this meeting was to consider the memorandum with a view to making recommendations with respect to the savings bond program to the full Committee at its meeting to be held tomorrow morning.

Mr. Youngdahl said that since the memorandum was distributed further study indicated two minor changes that should be made. One of these had to do with the reference on page 6 of the memorandum to the experience of the United Kingdom in connection with the revision of their savings certificates and defense bonds in February 1951. Further study of United Kingdom experience, Mr. Youngdahl said, indicated that while gains initially made in national savings certificates in the United Kingdom had been maintained through September, the experience with respect to defense bonds during August and the first half of September was unfavorable and all of the gains that were made after revision of the terms last February had now been lost. He expressed the view that the memorandum should be changed so that it would not indicate that increases in interest rates on these securities in the United Kingdom had been followed by continuous increases in their sales, and he suggested that the third and fourth sentences in the paragraph beginning at the bottom of page 6 be deleted. Mr. Youngdahl also referred to the statement on page 9, paragraph 2, stating that a further

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search of the law governing the issuance of savings bonds revealed that the provision that the maturity of the bonds could not be less than 10 years, which was in the 1935 legislation, had not been carried over in the language of wartime amendments, and he suggested that the sentence be revised to eliminate detailed reference to terms of savings bonds and merely to say that an increase to 3 per cent in the yield would be possible under existing law and could be accomplished while continuing to pay "\$4 for \$3" by cutting the maturity of present bonds to about 9 years 8 months. It was understood the changes suggested by Mr. Youngdahl should be made in the memorandum.

There followed an extensive discussion of the problem of selling savings bonds including the questions whether the present bonds were attractive to the investors for whom they were intended, whether the present method of financing the savings bond sales effort should be changed, and whether a different selling technique was needed in order to promote their distribution. In considering the attractiveness of present savings bonds, reference was made to the possible effects of changes in yields and maturities of the bonds, to tax features, and to adjustments in the schedules for redemption so that yields during earlier years would be brought more closely in line with returns from other forms of savings. At the conclusion of the discussion, it was agreed unanimously that the statement would be made to the full Committee at the meeting to be held tomorrow that the executive committee was in general agreement with the study prepared by the

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Research Committee on Government Finances (revised to include the changes suggested by Mr. Youngdahl at this meeting) and that it was recommended that the study be transmitted to the Secretary of the Treasury by letter prepared for Chairman Martin's signature, which would state that while the Committee felt that the problem was an important one and should have prompt consideration, it had come to no final conclusions as to the steps that should be taken and that it would be glad of an opportunity to discuss the matter with Treasury representatives or to be helpful in any other way that it could.

At this point Mr. Norton withdrew from the meeting.

There was a brief discussion of what, if any, suggestions should be made to the full Committee with respect to Treasury financing and System credit policy but no conclusions were reached.

Chairman Martin referred to the two questions in the Patman subcommittee questionnaire which were to be answered by the Chairman of the Federal Open Market Committee in collaboration with the Vice Chairman of the Committee and stated that he would appreciate it if the members of the executive committee would read carefully the drafts of answers that had been prepared and give him and Mr. Sproul the benefit of any comments that they might have to make. Copies of the drafts of answers were placed in the hands of the members of the Committee before this meeting.

During the course of a brief discussion of questions that might be raised in the Patman subcommittee hearings, it was agreed that material should be prepared which would provide answers to questions with respect

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to profits of Government security dealers who were qualified to do business with the Federal Reserve Banks for the System Open Market Account.

Thereupon the meeting recessed to reconvene following the meeting of the full Committee to be held November 14, 1951.


Secretary.

The meeting of the executive committee of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, November 14, 1951, at 12:30 p.m.

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

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Thomas, Economist
Mr. Vest, General Counsel
Mr. Rouse, Manager, System Open Market Account
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

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;

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(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.

In a discussion of the basis upon which purchases and sales of short-term securities would be made for the System open market account, reference was made to the understanding at the meeting of the executive committee on October 4 on this point.

Mr. Sproul stated that it was his understanding of the discussion at the meeting of the Federal Open Market Committee this morning that, within the limitations of the direction issued by the full Committee, the executive committee was under instructions to carry on operations in both short-term and long-term Treasury securities for the purpose of maintaining an orderly market and that the points previously fixed below which long- and short-term issues would not be allowed to decline had been abandoned. The other members of the committee concurred unanimously in this view and it was understood that in carrying on operations for the System account, pursuant to the direction set forth above, the Federal Reserve Bank of New York would be guided accordingly.

In a discussion of operations during the next few weeks, it was suggested that it might be possible for the System account to sell

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certificates and to replenish its bill portfolio. It was agreed unanimously that the committee would not wish to have sales of certificates offset by purchases of bills just for the sake of having bills in the account, that if certificates could be sold without buying bills that course should be followed, but that if it became necessary for the System to buy short-term securities in order to maintain orderly market conditions, it might be preferable to give such support through purchases of bills rather than certificates.

In a discussion of the recommendation to be made to the Secretary of the Treasury in connection with refunding approximately \$1,100,000,000 of 2-1/4 per cent bonds maturing on December 15, 1951, Mr. Sproul suggested that the committee might recommend that they be refunded into an additional issue of the outstanding August 15 or September 1 certificates at whatever rate was indicated by the market at the time the announcement was made.

Chairman Martin suggested that inasmuch as a recommendation need not be made until toward the end of this month and since another meeting of the executive committee was not contemplated before the end of the year, it be understood that the decision on the refunding recommendation would be made by telephone. This suggestion was agreed to.

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It was understood that the next meeting of the committee would be subject to call by the Chairman.



A. Carpenter
Secretary.