

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 Monday, April 21, 1952, at 10:30 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Hugh Leach  
Mr. Powell  
Mr. Vardaman

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

Mr. Riefler, Secretary  
Mr. Thurston, Assistant Secretary  
Mr. Thomas, Economist  
Mr. Young, Associate 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

Before this meeting there had been distributed to the members of the committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period April 4, 1952 to April 16, 1952, inclusive. At this meeting Mr. Rouse presented a supplementary report covering commitments executed on April 17 and 18, 1952. Copies of both reports 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 account for the period April 4, 1952 to April 18, 1952, inclusive, were approved, ratified, and confirmed.

4/21/52

-2-

In accordance with the understanding at the meeting of the committee on April 4, there had been sent to each member of the committee before this meeting a memorandum from Mr. Rouse dated April 17, 1952, describing the situation which arose and the procedures followed in handling the Treasury's balances with the Federal Reserve Banks and the special certificate of indebtedness held by the Federal Reserve Banks over the week end of March 21, 1952. Attached to Mr. Rouse's memorandum was another prepared in the Securities Department of the Federal Reserve Bank of New York also dated April 17 giving additional details as to the arrangements that had been made for handling of the Treasury's balances over that week end. Mr. Rouse's memorandum recommended that, in order to avoid the necessity for obtaining special authorizations for each purchase of special certificates by an individual Reserve Bank under similar situations, the executive committee be authorized to issue a continuing formal authorization to Federal Reserve Banks, under arrangements made by the Federal Reserve Bank of New York, to purchase special certificates direct from the Treasury, from another Federal Reserve Bank, or from the System open market account where it will facilitate the handling of the Treasury's balances on Saturdays or holidays when the Federal Reserve Bank of New York is closed and another Federal Reserve Bank is open. It would be understood that, in acting under such authorization, the amount of special certificates held by Federal Reserve Banks for their own

4/21/52

-3-

accounts, together with the amount held in the System open market account, shall not exceed the total amount authorized to be held under the latest periodic authorization of the executive committee of the Federal Open Market Committee to the Federal Reserve Bank of New York for the System account.

During the discussion that followed, it was suggested that the executive committee recommend to the full Committee that it authorize the executive committee to issue a continuing formal authorization along the lines recommended by Mr. Rouse.

This suggestion was approved unanimously with the understanding that copies of Mr. Rouse's memorandum would be sent to the members of the Federal Open Market Committee who were not members of the executive committee, and that the matter would be placed on the agenda for the next meeting of the full Committee.

Pursuant to the action at the meeting on April 4, there had been sent to each member of the committee under date of April 10, 1952 a memorandum prepared by the staff regarding purchases of bankers' acceptances by Federal Reserve Banks. The memorandum recommended that the executive committee recommend to the Federal Open Market Committee that section 8 of the Regulation of the Federal Open Market Committee be amended in such manner as to delete from paragraph (2) the provision that rates of discount on acceptances and bills of exchange purchased shall be established in accordance with the provisions of Section 14(d) of the Federal Reserve

4/21/52

-4-

Act, and to delete from paragraph (4) an obsolete provision authorizing purchases and sales of cable transfers through the Habana agency, which was discontinued in 1938. It also suggested that the executive committee recommend to the full Committee that:

"A. Each Federal Reserve Bank be authorized to purchase prime eligible bankers' acceptances in the open market from banks and financially responsible experienced dealers and to hold such acceptances in its own portfolio.

"B. The minimum buying rate on such prime eligible bankers' acceptances shall be fixed by the Federal Open Market Committee at this time at 1-3/4 per cent, subject to change from time to time by the Committee in order to carry out its policies.

"C. The effective rates at which a Federal Reserve Bank may purchase bankers' acceptances shall be not less than the minimum buying rate and shall be specified from time to time by the Manager of the System Open Market Account in the light of market conditions and developments and in accordance with any directives or limitations prescribed by the executive committee for the purpose of carrying out the current policies of the Federal Open Market Committee. Any change in the effective buying rates on bankers' acceptances shall be promptly reported by the Manager of the Account to the Federal Open Market Committee."

In a discussion of the recommendation, it was suggested that the first sentence of paragraph C quoted above be changed to provide that rates specified by the Manager of the System Account shall be in accordance with any directives or limitations prescribed by either the full Committee or the executive committee.

Chairman Martin suggested that the executive committee recommend to the full Committee the adoption of the proposed amendment to the Regulation and the issuance of the authorizations and instructions set out in paragraphs A, B, and C, with the above change suggested in

4/21/52

-5-

paragraph C.

This suggestion was approved unanimously, with the understanding that copies of the recommendation would be sent to each member of the full Committee before its next meeting.

Chairman Martin referred to the discussion at the meeting on April 4 of the request made of him when he appeared before the Patman Subcommittee on March 11, 1952, that he make available to the Subcommittee in executive session for examination by its several members certain communications from the Federal Open Market Committee and the Board of Governors to the President and to the Secretary of the Treasury with respect to questions of credit policy and Treasury financing in the period July 1950-March 1951. He went on to say that subsequently the Subcommittee addressed a request to the Secretary of the Treasury that he submit whatever communications were in his files which he felt would be appropriate for the record and that at his (Chairman Martin's) request Mr. Young consulted with representatives of the Treasury and with Henry C. Murphy, Economist to the Subcommittee, concerning the possibility of the Federal Reserve System and the Treasury submitting identical sets of documents for the record. The Chairman then called upon Mr. Young who stated that, in addition to the material listed in Chairman Martin's letter to the Subcommittee on March 25, on which date he showed the material listed therein to the members of the Subcommittee, it was proposed that in order to make the record complete there also be submitted

4/21/52

-6-

a letter from the Secretary of the Treasury dated July 17, 1950; a memorandum from the President dated October 5, 1950, for the heads of departments and agencies of the Federal Government; a letter from the Secretary of the Treasury dated November 13, 1950; a letter to the Secretary of the Treasury dated November 14, 1950; a letter from the President dated February 1, 1951; and the memorandum, as released to the press February 3, 1951, prepared for the Federal Open Market Committee covering its meeting with the President on January 31, 1951. Mr. Young also said that the Treasury had included these additional letters and memoranda in the material it had submitted to the Subcommittee, as well as several annotations stating, in effect, that the Secretary of the Treasury had not replied to certain letters from the Federal Open Market Committee since the subject of the Committee's communications was discussed in meetings which the Secretary had with officials of the Federal Reserve System. In addition, the Secretary of the Treasury had included a Treasury press release dated August 18, 1950, concerning the offering of Treasury securities announced on that date and a statement by the Secretary of the Treasury referring to the announcement of the refunding dated August 21, 1950, and it was proposed that the set of documents to be submitted by the Federal Reserve also include copies of these releases.

Chairman Martin then read a draft of letter prepared for his

4/21/52

-7-

signature addressed to the Honorable Wright Patman, Chairman, Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, as follows:

"In accordance with your request, the staffs of the Treasury Department and of the Board of Governors of the Federal Reserve System have prepared an annotated collection, arranged in chronological order, of the correspondence between the Treasury and the Federal Reserve System, and between the Federal Reserve System and the President, bearing upon the principal problems of debt management and monetary policy during the period between the outbreak of hostilities in Korea in June 1950, and the Treasury-Federal Reserve accord on March 4, 1951. In some cases other documents, such as press releases, have been added in order to assist the reader in interpreting the correspondence.

"I am advised that the President will have no objection to the submission to your Subcommittee for inclusion in the record of its proceedings of copies of letters addressed to him as follows: Under date of December 1, 1950, by the Chairman of the Board of Governors of the Federal Reserve System; and under date of December 9, 1950, and February 7, 1951, respectively, by the Chairman of the Federal Open Market Committee.

"The materials herewith transmitted include all of those shown to the members of the Subcommittee by me at your meeting on Tuesday, March 25, 1952.

"As I have previously indicated, while the Board and the Federal Open Market Committee favor the fullest possible disclosure of all matters affecting the public interest, we have questioned whether the public interest would be served by publication of these letters and related material dealing with complex and controversial matters which were satisfactorily resolved more than a year ago."

The list of documents referred to in the foregoing letter was as follows:

Letter addressed to the Secretary of the Treasury under date of July 12, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

4/21/52

-8-

Letter addressed to the Chairman of the Board of Governors under date of July 17, 1950, by the Secretary of the Treasury.

Letter addressed to the Secretary of the Treasury under date of July 31, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Statement for the press issued by the Treasury Department on August 18, 1950.

Statement for the press issued by the Board of Governors and the Federal Open Market Committee on August 18, 1950.

Statement by the Secretary of the Treasury released to the press on August 21, 1950.

Memorandum from the President dated October 5, 1950, for the heads of departments and agencies of the Federal Government.

Letter addressed to the Secretary of the Treasury under date of October 16, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to the Secretary of the Treasury under date of October 30, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to the Chairman of the Federal Reserve Board under date of November 13, 1950, by the Secretary of the Treasury.

Letter addressed to the Secretary of the Treasury under date of November 14, 1950, by the Chairman of the Federal Open Market Committee.

Letter addressed to the Secretary of the Treasury under date of November 17, 1950, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter, with attachments, addressed to the President under date of December 1, 1950, by the Chairman of the Board of Governors on behalf of the Board.

Letter addressed to the President under date of December 9, 1950, by the Chairman of the Federal Open Market Committee.

4/21/52

-9-

Memorandum expressing the personal views of the Vice Chairman of the Federal Open Market Committee, which was left with the Secretary of the Treasury during a meeting which the Chairman and the Vice Chairman of the Open Market Committee had with the Secretary on January 3, 1951.

Letter addressed to the Chairman of the Board of Governors under date of February 1, 1951, by the President.

Memorandum, as released to the press February 3, 1951, prepared for the Federal Open Market Committee covering its meeting with the President on January 31, 1951.

Letter addressed to the President under date of February 7, 1951, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Letter addressed to the Secretary of the Treasury under date of February 7, 1951, by the Chairman of the Federal Open Market Committee on behalf of the Committee.

Following a discussion, upon motion duly made and seconded, unanimous approval was given to the letter set forth above and to the submission of the material described in the accompanying list.

Secretary's note: The letter, list, and material were delivered to the Subcommittee under date of April 21, 1952, the submission of such material previously having been approved over the telephone by all members of the full Committee who were not present at this meeting.

Chairman Martin referred to the action of the Federal Open Market Committee at its meeting on May 17, 1951, authorizing him to appoint a committee to make a study of the Government securities market along lines he suggested at that meeting. In this connection, there was distributed an outline of a suggested ad hoc subcommittee of the Open Market Committee

4/21/52

-10-

to study the Government securities market with special reference to the organization and operation of the open market account. The outline contained subheads as to (1) organization of subcommittee, including appointment of a consultant, (2) objectives of the inquiry, and (3) method of operation. Chairman Martin stated that he was sorry that the outline had not been distributed before this meeting but that it had not been completed until after he left Washington last week and that he had not had a chance to go over the present draft until this morning. He added that the outline represented his general views as to how the study might be made, that he hoped the committee could start its work by May 15, and that he felt it would be desirable to have a sufficient number of members to permit the committee to carry forward its work in the hope that it would be able to submit a report in around three months after the study was started.

In connection with the employment of a consultant to work with the subcommittee, Chairman Martin stated that it was essential that the qualifications of such a consultant include (1) broad financial understanding, particularly with respect to credit control functions of the Reserve Banks and of open market operations, (2) intimate knowledge of the Government securities market, and (3) reputation for integrity, impartiality, and objectivity. The services of the consultant might be needed on a full-time basis for three months or longer, Chairman Martin

4/21/52

-11-

stated, and on the basis of exploratory conversations he had had, he felt that Mr. Robert H. Craft, Vice President and Treasurer of Guaranty Trust Company of New York, would meet the qualifications outlined, that he would be interested in such a study, and that he might be available for the work. In addition to these qualifications, Chairman Martin noted that Mr. Craft currently was chairman of the Governmental Securities Committee of the Investment Bankers Association of America. He added that he would be glad to have any other suggestions as to a consultant as well as suggestions which any of the members of the committee wished to make concerning the organization of the subcommittee, the objectives of the inquiry, or its method of operation.

Mr. Evans joined the meeting at this point.

Messrs. Sproul and Rouse commented favorably regarding Mr. Craft and none of the members of the Committee indicated they would oppose his appointment as a consultant if it developed that he would be available.

With respect to the method of payment of the consultant, Chairman Martin suggested that such consultant might be employed on a per diem basis. It was also suggested that he might be engaged with the understanding that his present employer would continue to pay his salary without reimbursement, or that the Board of Governors of the Federal Reserve System might reimburse the employer for such salary during the period

4/21/52

-12-

while the consultant was serving with the subcommittee. Under any of the arrangements, it was assumed that reimbursement for necessary travel costs would be made by the Board of Governors.

There was a general discussion of these and other arrangements that might be made for employment of a consultant during which Mr. Vardaman suggested that Chairman Martin be authorized to negotiate for the services of Mr. Craft with a view to determining whether he would be available and, if so, to conclude the arrangements along any of the lines discussed at this meeting without further reference to the committee.

Upon motion duly made and seconded,  
and by unanimous vote, Mr. Vardaman's  
suggestion was approved.

In response to a question from Mr. Sproul, Chairman Martin stated that the outline for the study of the Government securities market presented at this meeting was tentative and that he would appreciate receiving any suggestions that any of the members of the committee might wish to make concerning any aspects of the study. In this connection, there was agreement that such suggestions should be submitted to Chairman Martin or to the Secretary as promptly as possible, that completion of the final outline be deferred until after a consultant had been employed in order to have the benefit of his suggestions concerning the procedure and details of the study, and that when a revised draft of outline had been completed it would be submitted to the executive committee, if

4/21/52

-13-

possible at its next meeting.

Reference was made to a draft of letter which the Federal Reserve Bank of New York contemplated sending to foreign correspondents and international agencies stating, in effect, that transactions in Government securities for foreign correspondents were sometimes executed by the Federal Reserve Bank in the market and sometimes with the System open market account. The general purpose of the letter, a copy of which was sent by the New York Bank to the Secretary under date of April 11, 1952, would be to inform the foreign correspondents and international agencies of the changed market situation and that at times their instructions might be executed by means of transactions with the open market account. The letter had been referred to the Board of Governors and the Board had indicated in a reply to Mr. Sproul dated April 17, 1952 that it was in agreement as to the desirability of addressing a letter similar to that proposed to the Bank's foreign correspondents. The matter was also brought up at this meeting of the executive committee inasmuch as the proposed letter would refer to transactions with the System open market account.

Mr. Sproul stated that a slight revision in the letter had been suggested by the Board of Governors, and he outlined the manner in which this suggestion might be adopted. With this change, the letter which would be sent by the Federal Reserve Bank of New York to its foreign correspondents and to international agencies would read substantially as follows:

4/21/52

-14-

"Owing to the changed money market situation here, prices of Government securities, even the short-term Treasury bills and certificates of indebtedness, have of late been fluctuating more widely than in recent years, and the willingness of the market promptly to absorb substantial offerings of securities, or promptly to provide securities on buying orders, has been somewhat affected. We want you to know the somewhat changed circumstances which prevail, or may from time to time prevail, in the market here, and we take the liberty of suggesting the increased importance of spacing maturities of Treasury bills and other short-term securities in your portfolio to coincide with your estimated seasonal or other requirements for funds.

"We wish to be sure you understand also that your instructions may be executed either by transactions in the market (with dealers, banks or other third parties) or by transactions with the Federal Reserve System Open Market Account, the securities account in which the several Federal Reserve Banks own participations and which is operated under the direction of the Federal Open Market Committee by an officer of this bank as manager. In either case transactions will, of course, be executed at current market prices. This flexibility sometimes enables us to execute transactions through the Federal Reserve System Open Market Account which could not, because of either the then current Federal Reserve credit policy or market conditions, be executed in the market. Our advices to you of the execution of transactions for your account will be in the same form in either case and consequently will not indicate whether the particular transactions to which the advices relate have been executed through the Federal Reserve System Open Market Account or in the market.

"You may be assured that we shall continue to give your instructions the same careful attention as in the past."

It was agreed unanimously that the committee would have no objection to the sending of the proposed letter by the Federal Reserve Bank of New York.

Before this meeting there had been sent to each member of the committee a memorandum from Mr. Young dated April 18, 1952 on the current

4/21/52

-15-

economic and money market outlook. The memorandum stated that since the meeting of the executive committee on April 4 it had become increasingly apparent that the current economic period may be characterized as one of moderate further expansion in total output with offsetting adjustment in many activities and prices and some lowering of sights as to inflationary expectations. It also said that over-all economic activity continued to rise slowly, with expansive and contractive activities substantially offsetting one another, and that the outlook for the near future seemed to be one of continued offsetting adjustments at high levels of output and employment. In the absence of Treasury borrowing through intermediate- or long-term issues, the memorandum said, strength in the Government securities market should continue, particularly as long as commodity and stock markets were showing weakness, prospects for industry credit demands were dim, declines in business plant and equipment expenditures were expected, and bank loan liquidation and time deposit expansion were anticipated. Under these circumstances, the memorandum said that continuation of the current policy of neutrality with respect to the money market appeared to be appropriate but if bank credit liquidation should develop in increasing volume, a question would arise as to the continued desirability of sales from the System account to absorb the member bank reserves thus released.

There followed a discussion of the current Federal Open Market Committee policy of neutrality under which System operations endeavor to

4/21/52

-16-

maintain a situation where there is a moderate amount of borrowing at the Reserve Bank and in which market forces of supply and demand are permitted to have their effect with a minimum of System intervention except to the extent necessary to promote orderly market conditions.

There was also a brief discussion of the tests that might be applied in determining what represented "neutrality" in open market operations.

During the discussion, Mr. Sproul pointed out that there were hazards in taking any fixed figure as a guide in this connection. He explained a borrowing level of \$400 million and a high level of excess reserves was not the same as an equal amount of borrowing with no excess reserves. The question, he said, is one of keeping the commercial banks coming to the Federal Reserve System in terms of discounting operations rather than always relying on open market sales.

At the conclusion of the discussion, Chairman Martin suggested that no change in the direction or in the understandings reached at the meeting of the executive committee on April 4 appeared to be necessary at this time.

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

4/21/52

-17-

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 \$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.

Chairman Martin suggested that the next meeting of the committee be set for Friday, May 9. Messrs. Sproul and Vardaman stated that they would be away at that time but that their alternates would be available for such a meeting.

Thereupon the meeting adjourned.



Secretary.