

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, October 6, 1953, at 10:40 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Erickson
Mr. Evans
Mr. Wills

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

Mr. Thurston, Assistant Secretary
Mr. Solomon, Assistant General Counsel
Mr. Young, Associate Economist
Mr. Carpenter, Secretary, Board of Governors
Mr. Sherman, Assistant Secretary, Board of
Governors
Mr. Youngdahl, Assistant Director, Division of
Research and Statistics, Board of Governors
Mr. Gaines, Securities Department, Federal
Reserve Bank of New York

Chairman Martin stated that word had been received that Mr. Sproul's plane had been delayed in arriving from New York and he suggested that Mr. Young present a review of the current economic situation pending Mr. Sproul's arrival.

Mr. Young then made a statement with respect to current economic and financial developments substantially as presented in a memorandum prepared by the staff under date of October 2, 1953, copies of which were distributed before this meeting. Mr. Young's summary of the situation included the statement that although current economic activity has continued at a high level, there is a pervasive tone of uneasiness among business and financial leaders, many of whom look for imminent recession

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in general activity and prices. Despite such uneasiness, Mr. Young said, few, if any, of those holding the view that some recession is imminent feel that it would be more than moderate. Virtually no observers expect any significant expansion in economic activity or increases in average prices in the period immediately ahead.

Mr. Sproul entered the room while Mr. Young was presenting the economic review.

Mr. Sproul reviewed recent operations for the System open market account, a report of which had been prepared at the Federal Reserve Bank of New York covering the period September 24 to October 2, 1953, inclusive. This report had been distributed to the members of the committee and a supplementary report covering commitments on October 5, 1953 was presented at this meeting. Copies of both reports have been placed in the files of the Federal Open Market Committee.

After commenting that it had been reported that the money market was excessively easy in mid-September, Mr. Sproul stated that it now was estimated that additional reserves would be supplied to the market by factors other than open market operations during the next two weeks. This, however, depended considerably on changes that might take place in the Treasury's balance, and Mr. Sproul commented upon differences between recent estimates prepared in the Board's offices, at the Federal Reserve Bank of New York, and at the Treasury as to the probable level of the Treasury's balance.

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Following a brief discussion, upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period September 24 to October 5, 1953, inclusive, were approved, ratified, and confirmed.

At Chairman Martin's request, Mr. Youngdahl presented estimates of possible changes in factors affecting reserves and in the levels of excess reserves and borrowings by member banks at the Federal Reserve Banks during the next several weeks. Mr. Youngdahl also commented on the differences that had developed during the past few weeks between the projections that had been made by the staff earlier in September and actual changes that had taken place, noting that excess reserves at the end of September were about \$150 million higher than borrowings, whereas it had been expected they would be about equal after allowance for the open market purchases actually made during the second half of the month. Among the reasons why the situation had been easier than had been assumed in the staff projections, Mr. Youngdahl said, were the following:

(1) There has not been the seasonal expansion in bank credit that had been estimated a month ago and, therefore, required reserves have not increased as had been estimated.

(2) The projection of demand for currency had assumed a normal seasonal expansion at this time plus some increase because of longer-term growth. Such expansion had been much less than expected, however, resulting in over \$100 million less drain on reserves than had been estimated early in September.

Mr. Youngdahl said that on the assumption that the present Treasury balance would be reduced shortly to around \$500 million and that the

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Treasury did not borrow new money in the period, the outlook was for a relatively easy situation during the next two weeks with excess reserves reaching up to around \$400 to \$500 million above borrowings. That would be followed toward the end of October, however, by some reduction in "free" reserves, i.e., the difference between excess reserves and member bank borrowings, and if the Treasury did new financing during the latter part of the month, October might close with a negligible amount of free reserves.

Chairman Martin noted that since the meeting of the executive committee on September 24, the System had put approximately \$168 million into the market through open market operations including repurchase agreements. He noted that at this time there were perhaps more than the usual uncertainties in some of the factors with which the committee ordinarily has to deal, and he suggested that the discussion be concentrated on the course that should be pursued during the next two weeks, having in mind that there was a disposition on the part of some people to feel that the money market was too easy at the moment.

Mr. Evans stated that he did not think the money market was too easy for the general good of the country as a whole, that he felt the committee had been unusually shrewd or fortunate in the amounts of reserves that had been supplied to the market during recent weeks.

Chairman Martin cited differences in views expressed at a dinner which he attended in New York last night where some individuals felt that

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the situation called for a reduction in reserve requirements in the immediate future, whereas others felt that the situation was already too easy and that no action should be taken to put more reserves into the market.

Mr. Erickson said that he too had heard comments to the effect that the money market had been too easy and that Government securities prices had risen too rapidly during the past few weeks. In his judgment, however, the situation should be kept quite easy, and he referred briefly to the possible significance of reductions in prices of sheeting which had been announced lately by some of the cotton textile firms. Mr. Erickson then asked Chairman Martin what decision the Treasury had reached with respect to using the free gold.

Chairman Martin said that he did not think a decision had been reached and that this was a matter which would have to be watched by the committee; that to the extent that the Treasury used or contemplated the use of the gold it meant that the Treasury was in the field of open market operations, and that from the standpoint of the executive committee the sooner the Treasury got out of this field, the better. This, however, was not a matter which the committee should try to influence. Mr. Sproul commented upon the present reluctance of the Treasury to use its free gold for fear that announcement of its use might give further impetus to the recent sharp run-up in prices of Government securities.

With reference to operations during the next two weeks, Mr. Sproul suggested that on the basis of the estimates prepared at the New York Bank

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and at the Board, it would appear that other factors than System operations would put funds into the market during this period. He thought that it would be desirable for the committee to watch the situation closely because of the difficulty of estimating the reserve picture accurately; it now looked, however, as though the committee probably would need to do relatively little in the way of purchasing securities during this period, and still maintain easy conditions in the money market which he felt would be desirable. He also said that while it did not seem likely that there would be occasion for the System to put additional funds into the market during the next two weeks, there might be some call for repurchase facilities which the committee had indicated should be made freely available.

Chairman Martin noted that the Treasury might have to do some new financing later this month and Mr. Szymczak commented that if this were the case it might hasten the use of free gold in the Treasury. It was noted in a discussion of this point that it probably would be necessary for the Treasury to obtain approximately \$2 billion in additional new funds between now and mid-January.

Mr. Mills stated that as he saw the picture the outlook was very murky. In one sense, the situation appeared to be easier than had been anticipated and there would not be the urgency to provide reserves that had been expected because of expansion of bank credit to private borrowers or because of Treasury borrowing. Changes in the Treasury balance would be important in the committee's operations during the next few weeks,

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Mr. Mills noted, and if there should be an early and rapid outflow of funds from the Treasury's account, there would be additional ease in the market. He felt that over the next two weeks it might be possible for the use of the Treasury balance to be coordinated with System open market operations so as to avoid a sharp temporary increase in reserves which might give a further upward thrust to Government securities prices.

Mr. Robertson felt that about the present degree of ease should be continued. In view of the various uncertainties in the picture, he would like to see a greater amount of flexibility in operations for the System account than is ordinarily the case.

Mr. Vardaman stated that he would like to have the present ease retained, that he did not feel it would be desirable to have the money market become any tighter than at present.

Mr. Szymczak stated that he felt the program should be one of watching developments from day to day, providing some reserves through outright purchases or through repurchase agreements, but on the whole keeping the situation about as it is until there was an indication from the Treasury as to what it might do in the way of new financing or what it might do in the way of using the gold in its free balances. He did not think operations could be projected accurately until some of these major uncertainties were cleared up.

Following some further discussion, Chairman Martin suggested that it be understood that operations for the System account would be carried

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on in the light of the foregoing discussion having in mind the program of continuing active ease that had been agreed upon at the meeting on September 24, 1953.

There was agreement with this suggestion.

Mr. Sproul suggested that in view of the current and prospective situation in the market it might be appropriate to reduce the limitation in the first paragraph of the directive to the Federal Reserve Bank of New York from \$750 million to \$500 million.

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 (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to avoiding deflationary tendencies, and (c) 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 \$500 million;

(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 exceed in the aggregate \$500 million.

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It was agreed that the next meeting of the committee would be at
10:30 a.m. on Tuesday, October 20, 1953.

Thereupon the meeting adjourned.


Elmer Thurston
Assistant Secretary.