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 Wednesday, May 6, 1953, at 11:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Evans
Mr. Mills
Mr. Johns, Alternate for Mr. Erickson

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

Mr. Riefler, Secretary
Mr. Thurston, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Ralph 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. Ralph F. Leach, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Willis, Assistant Secretary, Federal Reserve Bank of New York

Secretary's note: Immediately before this meeting convened, Messrs. W. Randolph Burgess, Deputy to the Secretary of the Treasury, and William T. Heffelfinger, Assistant to the Fiscal Assistant Secretary, Department of the Treasury, met with those attending this meeting, at which time Messrs. Burgess and Heffelfinger outlined the Treasury's current and prospective cash position during the calendar year 1953 and discussed informally possible methods of obtaining additional funds needed by the Treasury during the year.

Before this meeting there had been sent 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 24 to May 4, 1953, inclusive. At this meeting, Mr. Rouse presented and commented upon a supplementary report covering commitments on May 5, 1953. 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 open market account for the period April 24 to May 5, 1953, inclusive, were approved, ratified, and confirmed.

Chairman Martin referred to a comment made by Mr. Rouse during his report to the effect that, outside Treasury bills, there was virtually no market for Government securities at the present time. The Chairman suggested that there be a discussion of the implications of this situation, adding the comment that while he knew of no disposition within the Open Market Committee to release the pressure on the money market at present, there was a question whether "the drum was drawn too tight" and whether the market was in a jittery state which might be obviated by having a limited amount of reserves supplied to the market, taking into account the over-all needs of the economy.

Mr. Rouse stated that the market was quite aware of the problem facing the Treasury and the probable need for a minimum borrowing of $10 billion during the next six months. There was considerable feeling that some of this would have to be obtained from the banks and the general question being asked, Mr. Rouse said, was where the reserves would be

coming from. After reading an excerpt from a market letter which indicated that banks should not feel under any obligation to acquire a new issue of Government securities just because they were being issued by the Government, Mr. Rouse went on to discuss the meeting of a group from the Investment Bankers Association with Treasury officials last Friday at which time they endorsed the policy of the Federal Open Market Committee and expressed the feeling that if the Treasury is to refund its maturing securities successfully during June and July, it would be wise to do this through an issue of "strip" Treasury bills at once in an amount of approximately $1,500 million, to be paid for through Treasury tax and loan accounts. Their feeling, Mr. Rouse said, was that this would be preferable to increasing the weekly offerings of bills for the next several weeks since the latter procedure would tend to aggravate the condition in the market each week over a period of time. Mr. Rouse said that, if the "strip" issue were decided upon, it probably would be announced almost immediately, to be followed shortly by announcement of a refunding program for Treasury certificates maturing June 1, 1953 in the amount of $4,963 million and Treasury bonds maturing June 15, 1953 in the amount of $725 million.

Chairman Martin commented that his thinking had been along the lines that the aggravation that would be caused in the market by the increase in the weekly offerings of bills over a period of weeks would be an advantage from the standpoint of monetary policy. Such a procedure

would make it appear much more logical for the Open Market Committee to release some funds to the market in terms of lessening pressures than would be the case if the Treasury were to offer a large volume of a new type of bill at this time which would cause a bulge in the bill market.

Mr. Rouse commented that this was recognized by the Treasury and that it was his impression that the Treasury was not inclined to issue the "strip" bills. He also felt that in making the recommendation for these bills, the Investment Bankers Association did so with the feeling that the Treasury was not fully aware of the state of the market for Government securities at this time.

Mr. Mills then made a statement substantially as follows:

> The money market has now developed two clearly defined sectors: (1) a short-term sector; (2) a long-term sector. Open market policy must be fully cognizant of both sectors and avoid being misled by conditions in the long-term sector into taking actions in the short-term sector that would be detrimental to a necessary continuance of restraint against the over-expansion of bank credit.
>
> Essentially the long-term sector of the money market is suffering from severe congestion with the demand for long-term capital funds running far ahead of the potential supply of genuine investment funds. It would, therefore, be an error to believe that the injection of new reserves into the money market will have more than a minor effect on the ability of the long-term sector of the market to absorb long-term security issues. On the contrary, an over-injection of new reserves into the market, besides failing to relieve the long-term sector of the market, would seriously handicap all efforts to restrain the growth of bank credit.
>
> To explain this reasoning it is first necessary to point up the fact that the commercial banking system is already well loaned up, especially as to the money market banks. Taken as a whole, the commercial banking system's previous acquisition of term loans and long-term municipal and corporate securities,

coupled with the fact that depreciation in its bond portfolio prevents liquidation in that area as a means of providing new loanable funds has reduced its liquidity to the point that it can no longer absorb longer term securities. Such being the case, the Treasury and other prospective issuers of long-term securities cannot look to the commercial banking system as a source of investment funds and credit, but must depend competitively on whatever supply of investment money becomes available in the congested long-term sector of the money market. In this situation the rate of interest will not be a final determinant of the direction in which investment funds flow but rather the creditworthiness of the borrower and the supply of funds available. This is seemingly a situation which the Treasury must recognize and in so doing make the terms of its new issues, other than a too generous rate, attractive enough to preempt the market. In doing so, certain prospective borrowers will be crowded out, but as they will be the least creditworthy and as their projects will presumably be postponable, this will be a desirable development unless it went so far as to set back existing capital expansion programs to the point that the forward momentum of the economy would be reversed.

To relate open market policy to the money market conditions above discussed, it follows that an over-injection of new reserves into the market at this time would not cure a situation that has been brought about by a deficiency in the supply of new investment funds as against the demands for the employment of such funds. On the contrary, the over-injection of new reserves into the money market could be damaging to present efforts to restrain the growth of bank credit.

In support of this conclusion, it is pointed out that where central reserve city banks are fully loaned up, that is less true of reserve city banks and still less true of country banks. Inasmuch as reserve city and country banks customarily lag behind central reserve city banks in their loan activities, it would be a mistake to take the position of the central reserve city banks as a criterion for the entire commercial banking system and to provide new reserves in amounts that would at this juncture allow reserve city and country banks a basis for a further considerable expansion of their loans. The result would be to foster an expansion of bank credit when least appropriate and of a probably least desirable type, namely, consumer credit, which is centered so largely in reserve city and country banks.

> However, the above discussion does not mean that no new reserve should be injected into the short-term sector of the money market at this time. It is the writer's belief that a minimum of new reserves should be provided promptly. Inasmuch as these reserves should find their way into the New York money market, they will serve to ease the position of the central reserve city banks and will allow them some leeway with which to handle their imminent seasonal demand for short-term loans. A better tone would also be given to the money market as such. Such a minimum injection of new reserves into the money market at this time would bolster the market at the points most needed without permitting an overflow of reserves that could prompt a further expansion of bank loans at reserve city and country banks. If these theories have substance, it is most important that open market policy avoid any delusion that the provision of new reserves will aid the present situation of the long-term sector of the money market. Likewise, open market policy should limit the supply of any new reserves furnished to amounts that will prevent an undue loan expansion at reserve city and country banks, for to do otherwise would mean the abandonment of the policy of restraint now in force. Subsequently it will be necessary to provide additional reserves with which to finance the seasonal loan needs of commerce and industry and to provide for an increment of growth in the over-all economy.

Mr. Mills added the comment that in his judgment, the injection of some reserves in the market along the lines indicated in his statement would be in the interests of continuing a tight money market in that it would "tone up" the market and prevent attrition on Treasury refunding.

Chairman Martin commented that Mr. Mills' remarks were excellent and that his own thinking ran somewhat along the same lines. He called upon Mr. Sproul who made a statement substantially as follows:

> I come out at much the same place as Governor Mills, although by a different route. He stressed the avoidance of an over-injection of reserves into the market at this time and I would agree. He also stressed avoiding the delusion that bolstering the long-term market would be accomplished by injecting

reserve funds in the short market at this time, although I would say that such action might have some steadying effect in the long-term market. I approach this from the standpoint of credit policy and of what should be the aims and objectives of credit policy.

1. We have been taxing the productive capacity and labor force of the country for some time with, I would assume, a resulting decline in the efficiency of management and labor. Costs are high, and may go higher if labor is successful in pressing for further wage increases. Prices are no longer rising—some sensitive commodities have declined in price. Agricultural income is expected to be down substantially in 1953. Profit expectations are coming into question. Demands on capital market are still heavy, particularly from public utilities and states and municipalities, but investment funds are less readily available even at higher rates of interest.

2. Consumers are buying more and more on time, and this in turn forces suppliers, at all stages of distribution, to seek more credit.

3. Banks are increasingly feeling the pressure of existing credit policy, which has forced them to reduce liquidity by using previous excess reserves and selling short-term Government securities; and which has forced them to borrow substantial amounts of reserves over a considerable period of time. This has been evident in New York for months and seems to be spreading to other parts of the country. The ability of the banks to expand loans further has decreased, and their willingness to loan to less than prime borrowers may be declining because of doubts about business prospects.

4. The growing opinion that an economic adjustment is in the offing—which finds some reflection in the stock market—is becoming a force in itself.

5. Treasury receipts have not come up to estimates and expenditures have. Cash needs during rest of this fiscal year will not be met by sale of billion of 3-1/4% bonds and billion of additional Treasury bills. Another billion will be needed this half year, and substantial further amounts early in the second half of 1953.

6. At best banks will have to underwrite some of this financing temporarily; and in any case, there will be financing through the banks, which will put a further strain on the Banks' reserve position. The Treasury as a necessitous borrower would have to pay whatever rate for short-term borrowing is necessary to displace private credit. There is no telling how high rates would go. If

private market factors should stand aside, as they now tend to do, the market might become "disorderly" before it gets to the equilibrium point.

7. If the banks are forced over from stopping the expansion of private credit to the active liquidation of outstanding loans--other than seasonal--we run risk of setting up a chain reaction of liquidation, due to the chain of debtor relationships which has been established throughout the economy.

Conclusions

8. The Open Market Committee's policy of credit neutrality gradually became a policy of credit restraint and, with a further lag, has become a tight money policy--money can be tight even at rates of interest which "look" low. Meanwhile the stresses which undoubtedly have accumulated in the economy during a long period of very high level activity, can cause trouble, and the expectation that they will is increasing.

9. Having in mind the lag between action and full effectiveness of credit policy, now is not the time to put further pressure on the money market.

10. The necessitous borrowing of the Treasury will press further on bank reserves, and put further pressure on the money market if we do nothing to offset it. It would be appropriate to buy Government securities to prevent this Treasury borrowing from introducing new pressures upon bank reserves.

11. The risk of such action is that it might give a final fillip to unwholesome developments in the business and credit situation, increasing our later difficulties. The risk of inaction is precipitation of an economic downturn, meanwhile creating a situation in which the Treasury cannot finance or refinance the Government in a reasonable manner. The latter risks are the greater under present circumstances.

12. I would begin immediately to put some reserves into market by outright buying, and would put more in as the Treasury announces its plans for borrowing the $2 billion plus new money which it needs before June 30th. If some confidence and stability is thus restored, there will be greater scope for using repurchase agreements, and banks may also borrow some of the necessary reserves, thus cutting down the amount of our outright intervention.

It is not right that we should have deficit financing at the top of a boom but that is what we have and I think we should adjust credit policy to the situation that exists and not to what we would like to have it.

Chairman Martin next called upon Mr. Thomas who stated that the staff had prepared some projections relating to the credit situation

during the remainder of this calendar year, based on the assumption of moderate normal expansion in the economy with an allowance for seasonal factors. With respect to the current situation, he stated that since March 4 of this year total loans of reporting member banks (excluding interbank loans) had increased $625 million compared with an increase of $370 million in the corresponding period last year. Business loans had increased in contrast to a decline last year and consumer loans had shown a much greater increase. Demand deposits adjusted also had increased whereas in the same period last year they had declined, while Government deposits had shown opposite movements. Notwithstanding the decrease in Government deposits, which put additional funds into the market, demand for credit had expanded.

With respect to the prospective Treasury position, Mr. Thomas said that the figures prepared by the staff indicated that the Treasury might have to borrow as much as $14 billion during the remainder of this calendar year and in addition there would presumably be seasonal private credit demands. Estimated changes in deposits and currency and in bank reserves and related factors during the remainder of the year 1953, assuming a growth of about 3 per cent in the money supply, Mr. Thomas said, suggested that approximately $2-1/2 to $3-1/2 billion of additional Reserve Bank credit would be needed during the period May-December 1953 depending largely upon the currency demand and the amount of gold movements. These needs would begin the end of May and continue, assuming usual seasonal factors,

to increase rather steadily during the remainder of the year, accelerating in the last quarter. Mr. Thomas cautioned that the projections were not forecasts but were prepared with the thought that they would be useful indicators of normal requirements.

Mr. Thomas noted that the money market is very tight at present, that it presumably will not tighten further during the next two weeks, but that in the last week of May there would be considerable additional pressure. During most of June, pressure might not increase greatly, on the assumption that the Treasury would draw down its balance at the Federal Reserve to a low figure and perhaps borrow directly from the Federal Reserve. At the end of June, however, pressure would begin to mount quite considerably. Mr. Thomas stated that the conclusion to be drawn fron an analysis of the figures contained in the projections was that, beginning at any time, a schedule of moderate purchases of securities might be followed by the Federal Open Market Committee. Purchases at the rate of $50 million a week for the rest of this year, Mr. Thomas suggested, along with generous allowance for the use of repurchase agreements to alleviate temporary tightness that would develop from time to time in the market especially at the year end, would probably still maintain a substantial degree of tightness in the money market and require some increase in member bank borrowing above present levels.

Mr. Evans said that he was confused, that the figures Mr. Thomas had cited on bank loans showed that credit had been expanding more rapidly

during this year than in the spring of 1952 and that banks were obtaining their funds through liquidation of Government securities or borrowing from the Federal Reserve Banks. The policy of the Open Market Committee had not retarded the expansion of bank loans as much as had been hoped, he said, and even if the present tightness in the money market was as great as had been indicated, Mr. Evans felt this was not the time to relax credit restraint since he believed it would be better for the economy over the long run to get any needed readjustment out of the way. The committee could not ignore the needs of the Treasury, however, he said, and some measures might be necessary in order to see to it that reserves were available in the market so that the Treasury could borrow at a reasonable rate of interest.

Mr. Thomas commented that the projections he had given in no sense contemplated a relaxation of credit policy, that they merely indicated the probable needs for reserves if the market were to be kept from getting tighter than it already is.

Chairman Martin said that he did not consider the question to be one of helping the Treasury per se, that it was a question of whether the rubber band was at a breaking point in the matter of tightness. Thinking in terms of a "free" market, he said, the committee must not get carried away with the idea that the market should not have some element of "elbow room". He then called upon Mr. Johns who made a statement substantially as follows:

I came prepared today to argue much to the same effect as Governor Mills and Mr. Sproul have already done. Perhaps I am influenced to a greater degree than I should be by the difficulty with which we are confronted in St. Louis and with which I suspect other Reserve Banks are confronted in the administration of the discount function according to our concepts of that function. I have come to believe either one or both of two things: First, either the deliberate policy of keeping banks indebted to us in the neighborhood of $1-1/2 billion is applying more pressure than we ought to apply at this time, or, second, perhaps the matter of gearing the level of discounting to any figure in terms of credit policy is dangerous and of doubtful validity. I suppose that not over 400 or 500 banks in the country as a whole did the bulk of the borrowing from the Federal Reserve in 1952. When we deliberately keep those banks indebted to us in the amount of $1-1/2 billion and at the same time, as a matter of administration, attempt to discourage or in some flagrant cases even to prohibit continuous borrowing, I find a lack of harmony in the policies we are following. So long as we pursue that procedure I suspect there will continue to be continuous borrowing on the part of a good many of these banks. I suspect our policy has put these banks under a good deal more pressure than we want. The banks are up against a hard choice whether to decline to extend credit, which they are reluctant to do in many cases and on which we are in no position to second-guess them, or whether to liquidate Government securities, or borrow from the Federal Reserve and incur our possible criticism. Therefore, I would look with favor on injecting some reserves into the market with the thought that perhaps the level of borrowing might be reduced. That might go farther toward accomplishing our objectives.

Chairman Martin remarked that there appeared to be fairly close agreement on the part of the members of the executive committee with respect to injecting some reserves into the market and he called for an expression of views by the members of the full Committee who were not now serving on the executive committee.

Mr. Szymczak stated that he felt the presentations made had been excellent, and that the projections referred to by Mr. Thomas posed a real

problem. Considering all of the factors in the present situation including the element of Treasury borrowing, he felt some relaxation in the degree of tightness in the market was called for at this time.

Mr. Vardaman wondered whether the long range purpose of the Federal Reserve would be accomplished by aiding in any way a further increase in credit extensions by member banks. He stated, however, that he sensed an almost acute necessity for injecting some reserves into the market at this time and he wondered whether there was any way in which this could be done and at the same time keep the reserves from going into increased extensions of real estate and consumer credit which appeared to be expanding in a particularly unsound manner.

Chairman Martin stated that this was a good question but that it was not possible to pinpoint the uses that would be made of any reserves put into the market. He also felt the point raised by Mr. Johns regarding the figure of $1-1/2 billion as a guide for member bank borrowing was a good one; he emphasized that the figure should not be taken as pinpointing any amount of member bank borrowings that was "correct". He reiterated that anything done to ease the tightness in the market should not be looked upon as a matter of helping the Treasury, that it was an over-all money market problem which might be helped or hindered by the Treasury and its financing problem.

Mr. Vardaman stated that he would be more inclined to inject additional reserves into the market if the Treasury met its additional cash needs for the rest of this fiscal year by an issue of a "strip" of bills for total requirements which he thought would be more likely to remove uncertainties now hanging over the Government securities market.

Chairman Martin disagreed with Mr. Vardaman on this point, stating that he felt the so-called "aggravation" that was being caused in the market and that would be caused by the recurring additional issues of weekly bills was in the interest of credit policy. He also would prefer not to have payment for bills made through tax and loan accounts at the Reserve Banks at this time. He felt the "aggravation" that would result from the recurring weekly bill issue could be borne, that the real question for the committee was not the Treasury financing but the over-all question of whether the market had become too tight.

Mr. Robertson stated that he was left with the feeling that although the market was tight, that was exactly what the Federal Open Market Committee was aiming for. He would not like to see any injection of reserves under circumstances which would result in a large expansion of loans. He suggested that, while some injection of reserves seemed appropriate, this action should be accompanied by an increase in the discount rate of Federal Reserve Banks which would have the psychological effect of discouraging member bank borrowing at the same time that the additional reserves were actually placed at the disposal of the banks.

In a discussion of Mr. Robertson's suggestion, Mr. Johns said that he was inclined to think the time is here or not far off when serious consideration should be given to an adjustment of the discount rate. He felt the injection of funds through open market operations and adjustment of the discount rate should be contemporaneous, which was not to say simultaneous. If the System is going to move in the direction, which he felt desirable, of using the discount rate somewhat more flexibly than has been done in the past, this would be a good opportunity to begin to get away from the concept which the market has and which some in the Federal Reserve have, that a change in the discount rate is, as Mr. Sproul has said from time to time, a "shock to the community".

Chairman Martin said that he had had a little different thinking on this question but that if Mr. Johns distinguished "contemporaneous" from "simultaneous", their thinking might not be far apart. He did not know how long the bill rate could remain where it is or rise further, and have the discount rate stay where it is. He felt Mr. Robertson's suggestion of an increase in the discount rate at the same time the committee started to put funds into the market was valid, but it was a question whether the committee should "shock the patient without assuring him he is going to have a little oxygen". While Chairman Martin would not preclude raising the discount rate, he had grave doubts that it should be done at this time.

In response to Mr. Robertson's suggestion that the discount rate might be increased with an accompanying announcement that the Federal Open

Market Committee was going to put reserves into the market over a period of weeks, Chairman Martin said that the desired results could not be gotten by announcements, that there had to be action.

Mr. Sproul then made a statement substantially as follows:

> Starting some ways back in this discussion, the point has been made in commenting on the figures of credit expansion that our policy has not been successful. All the figures show the economy is working at the highest levels at which it has worked except in a war period. We have, as Mr. Young has said, an "over-time, over-employment economy" and yet one in which inflationary factors for some time have not been dominant. The increase in credit which has taken place, therefore, should not be taken as an indication of a failure of our policy. In fact we have had perhaps what we were trying to attain--a high level economy without extreme inflationary pressures. I don't think we can say our policy has not been successful. You have to think of the things that have not happened, the loans that have not been made, the things that would have happened if we had not had such a policy.
>
> My second point is that what is now being suggested is not a relaxation. It is to prevent the situation from further tightening. I don't think it would even relieve the banks of the need for further borrowing if we carry on as has been suggested. The banks have used their excess reserves and reduced their liquidity to the extent that they are able, so if we put in additional reserves to meet new demands on these reserves I don't think we are going to give relief to the banks as borrowers. As I see it, we will keep the policy from becoming a tighter policy than we think it should be.
>
> Third, when you suggest raising the discount rate at the same time you put funds in the market, you would have a situation such as we have had in the past, in which the Federal Reserve might be accused of trying to go two ways at the same time. I don't think it has ever worked in getting understanding in the market or by the public. It may be we have been moving too slowly in adjusting the discount rate but I think it would be a mistake to try to get the Federal Reserve Banks to increase their discount rates at this time in the face of the business and credit situation we have now, and in the light of the open market policy we are discussing. The business situation has not been discussed here but I don't think we can assume

that business is going to go on at the present high levels. We can assume there is going to be a "readjustment" in the business situation sooner rather than later. We have to keep that in mind, along with the idea that credit policy reaches its maximum effect with some lag. So I wouldn't want to put funds into the market and at the same time increase the discount rate.

Fourth, when you go to the Treasury's problem, perhaps our answer should be along the lines of telling them what credit policy is going to be and of indicating that from the standpoint of credit policy a weekly issue of bills would fit more naturally into the credit picture. Whether that is the best thing from the standpoint of debt management I have considerable doubt, but I think it fits better with credit policy. The final decision on that, of course, is up to the Treasury.

In response to a question from Mr. Evans, Mr. Thomas said that if outright purchases of $50 million a week were made from now to the end of the year the System would be adding about $1-3/4 billion of reserves to the market. In addition, reserves could be made available through repurchase agreements and discounts.

Chairman Martin called attention to Mr. Riefler's view that the projection indicated that additional reserves at the rate of $100 million a week were needed just to hold the situation where it is and to keep it from becoming tighter.

Mr. Evans withdrew from the meeting at this point with the statement that whatever action was taken by the committee would be satisfactory to him.

In response to a question from Mr. Vardaman as to whether the Treasury had asked the opinion of the committee on whether the "strip" Treasury bill issue or an increase in the regular weekly bill offerings would be

preferable, Chairman Martin said that the Treasury had indicated that it was always glad to have the committee's opinion, that under the present procedure, such matters were fully and freely discussed, but that no formal memorandum would be prepared.

Mr. Thomas referred to the rate on repurchase agreements, stating that the present rate of 2 per cent was very attractive to dealers. He wondered whether it would be preferable to have a rate that was closer to the market.

Chairman Martin commented that while this suggestion had been made from time to time, an increase in the rate at this time would have the disadvantage of injecting a new note into the picture.

Mr. Rouse said that he had considered raising the rate from the operating standpoint but that thus far there had been no occasion for doing so. He noted that until the past week or two, the yield on the short bills (which are the ones the dealers are carrying for the most part) has been close to 2 per cent. With the increase to 2.35 in the rate on bills sold on Monday of this week, and with the prospect of a still higher rate, Mr. Rouse felt it would be proper to raise the rate on repurchase agreements to 2-1/4 per cent if market rates on other than when-issued bills were generally in that range. Mr. Rouse added the comment that dealers are reluctant to take a position in bills under present conditions, with the result that they have very few bills and are not able to make repurchase agreements freely.

Mr. Riefler asked whether dealers would acquire more bills if they knew in advance that repurchase facilities would be available, and Mr. Rouse responded that he did not think so under present conditions, that they have to have some feeling of confidence in the market.

Chairman Martin suggested that further consideration be given to the question of the rate on repurchase agreements at the meeting of the committee to be held next week. In the meantime, it was his understanding that the committee was in agreement that operations should be carried on along the lines of the foregoing discussion regarding the injection of some reserves into the market, without, however, any understanding as to the amount of such reserves that might be needed to keep the market from becoming too tight. He felt that the quantity of purchases could be left to the judgment of the Manager of the Account who would "feel his way" in the market. He added the statement that he hoped such purchases as were necessary would not be related directly to the Treasury's financing, but that they would be guided by the over-all needs of the money market in the light of the Committee's credit policy.

Mr. Sproul stated that his understanding was that our policy is not for the purpose of helping the Treasury to float any issue or to fix any rates. Treasury financing will have an impact on the reserve position of banks, however, and the question the committee had been discussing, Mr. Sproul said, relates to whether there should be further tightening in the

money market because of this; it was on the basis of avoiding a further tightening that he understood reserves would be placed in the market.

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 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 $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 $1 billion.

It was understood that the next meeting of the committee would be held on Wednesday, May 13, 1953, at 10:30 a.m.

Thereupon the meeting adjourned.

Secretary.