

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 20, 1953, at 10:45 a.m.

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

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

Mr. Bryan, President of the Federal Reserve Bank
of Atlanta

Mr. Thurston, Assistant Secretary
Mr. Thomas, Economist
Mr. Solomon, Assistant General Counsel
Mr. R. A. Young, Associate Economist
Mr. Carpenter, 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

Upon motion duly made and seconded, and
by unanimous vote, the minutes of the meetings
of the executive committee of the Federal Open
Market Committee held on September 24 and
October 6, 1953, were approved.

Before this meeting there had been sent to the members of the committee a report prepared at the Federal Reserve Bank of New York covering operations in the System open market account from October 6 to October 16, 1953, inclusive. At this meeting Mr. Sproul presented a supplementary report covering operations for the System account on October 19. Copies of the two reports have been placed in the files of the Federal Open Market Committee.

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Mr. Sproul supplemented the reports with the comment that in the recent period the market had gained substantial amounts of reserves from other sources and while no outright purchases were made since the previous meeting of the executive committee on October 6, 1953, it could be said that the System earlier had anticipated the need for reserves later in the year and, if any error had been made, it had been on the side of active monetary ease in accordance with the policy adopted by the Federal Open Market Committee at the meeting on September 24, 1953.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period from October 6 to October 19, 1953, inclusive, were approved, ratified, and confirmed.

Mr. Young reviewed recent economic developments as set forth in a memorandum prepared in the Board's Division of Research and Statistics under date of October 16, 1953, copies of which had been sent to the members of the committee before this meeting. A copy of the memorandum has also been placed in the files of the Federal Open Market Committee.

Mr. Thomas commented upon the bank credit situation as summarized in the last section of the memorandum above referred to, pointing out that the easy money conditions referred to by Mr. Sproul were due largely to the failure of monetary demands to reach levels for which reserves had been supplied. He also discussed the impressions which he had gained of conditions in the real estate mortgage market during a recent trip which he made with the Federal Housing Administrator to Cleveland, Miami, New Orleans,

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Birmingham, and New York, where meetings were held with builders and representatives of mortgage financing institutions. He said that it was evident that the pressure of available funds was beginning to be felt in the market and while there were still builders who were hesitant about going ahead with commitments, the situation was definitely easier. He said that while secondary investors were still unwilling to take FHA and VA loans at par, the discounts on such loans were becoming established at a more stable level with 94 as the low point and that these loans were not being pushed on the market as actively as they were. There were also indications that some insurance companies were beginning to feel that there would not be as many mortgage loans available as there were funds available for investment and these concerns were beginning to make forward commitments. He questioned whether the industry would work out ways to operate under a discount system and said that the view was widely accepted that the rates on guaranteed and insured mortgages should be flexible with no ceiling or one above the market in most areas. Consideration is being given to ways in which rate changes might be made by administrative decision. He concluded with the comment that there was a good chance that before next spring financing would no longer be a serious handicap and that home building volume would be determined more by demand for houses than by financing considerations.

Turning again to the money market, Mr. Thomas pointed out that excess reserves, which were about \$600 million larger than borrowings from

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the Federal Reserve Banks, would decline somewhat in the next two or three weeks, but that, even if new Treasury financing were undertaken during the period, excess reserves would probably continue somewhat above borrowings. Thereafter, he said, there would be no substantial drain on reserves until the end of November and although the situation might be adequately taken care of by repurchase agreements and moderate borrowings, some small direct purchases of securities for the System account during the week of the new Treasury offering and toward the end of November would do no harm and might be advisable. Later during the meeting Mr. Thomas said that there was a question whether, at the present repurchase rate, repurchase agreements would be offered in any great amount unless the market rate on Treasury bills should increase, and it is doubtful whether under its present policy the committee would want that much tightening in the market. He said that this raised the question whether consideration should be given to a reduction in the repurchase rate at some time before the end of the year.

Mr. Sproul posed the question whether, notwithstanding a high level of employment, production, and income, a number of the stimulants (such as rising defense expenditures, large net extensions of consumer and real estate credit, and high levels of agricultural exports) that had existed in the economy since Korea were losing their force at a time when it also appeared that our productive capacity had caught up with past and current consumption demands in some areas of the market. This situation, he said, suggested that if there should be a departure from existing economic and price stability it would be on the down side which was justification for the System's present

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policy of credit ease. He thought that the policy of erring on the side of credit ease should continue to apply during the next two or three weeks, and he therefore questioned whether the System should follow a policy of allowing the market forces to have completely free play in bringing about a higher level of borrowings and a lower level of free reserves. While present substantial free reserves are a cushion against prospective losses of reserve funds, it was his view that small outright purchases of securities in the market might be desirable to maintain the existing policy of credit ease which was approved at the last meeting of the full Committee.

Chairman Martin concurred with Mr. Sproul's last comment stating that the question was whether in this situation the System should be in the position of a leader or a follower.

Following statements to the effect that at recent meetings of economists outside the System greater confidence was expressed that the Government would take steps to try to prevent a recession and that any adjustment that occurred in the economy would not be as great as had been thought a short time ago, Mr. Young expressed the view that we were still in a testing period, that for reasons which Mr. Sproul had presented the economy might turn downward, but that the situation might develop into a period of stability which would hold for several months in which new forces, such as the growth of population and strength in durable goods and housing demands, could make for continued high levels of activity. He referred to the impact now being made on the housing market by the high level of family formation in the

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late 1940s and stated that that development had been underestimated in appraisals of both the housing and automobile markets. He felt there was some basis for believing that the housing market would be stronger during the coming year than many had thought.

Following some further discussion, the members of the committee agreed that no change should be made in the manner in which the policy approved by the full Committee on September 24 was being carried out but that, depending upon developments, some small judicious direct purchases of Treasury bills might be justified.

Chairman Martin referred to the forthcoming Treasury new security offering and there was a discussion of the form which the financing might take within a possible range of 6-year 2-3/4 per cent to 15-year 3 per cent issues. There was also a discussion of the extent to which the new issue would be taken originally by the banks and by nonbanking investors who would sell shorter term existing issues to the banks, and the opinion was advanced that regardless of the maturity of the issue a considerable amount of bank financing would be involved.

Mr. Sproul felt that there was much to be said for an offering nearer the shorter end of the maturities being considered which in his opinion would best fit the System's existing credit policy and would be wise debt management policy at the same time.

Mr. Bryan referred to the problem of free riding that might be in the picture if a longer term issue were offered and said that unless the free riding could be eliminated he would not favor a long-term offering.

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For that reason and because of the continuing evolution of the market resulting from the increases in yields earlier in the year he preferred that the financing be through the medium of a shorter term issue.

Mr. Mills referred to the problem of shortening portfolios faced by the banks and suggested that with the improvement in prices of Government securities over the last several months the banks might be more receptive at the present time to extending their maturities than at any time in the last two years and that the question before the Treasury was whether the situation might be better served by having that operation take place in the market as it exists or with new longer term securities. He felt that that problem deserved careful study.

Chairman Martin stated that he was convinced that from the standpoint of monetary policy it did not make a great deal of difference what form the new financing took and that therefore the problem was primarily one for those responsible for the management of the public debt.

At the conclusion of the discussion, Chairman Martin inquired whether, in view of the discussion at this meeting and the continuing policy of active credit ease, there should be any change in the limitations in the direction to be issued to the Federal Reserve Bank of New York covering open market operations.

Mr. Sproul expressed the view that the existing limitation of \$500 million in both paragraphs of the direction would be adequate pending another meeting of the executive committee.

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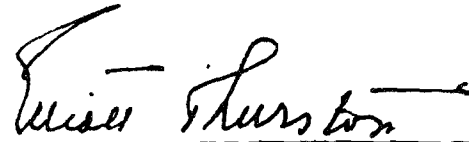
Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the executive committee:

(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.

It was agreed unanimously that the next meeting of the executive committee should be held at 10:45 a.m. on Tuesday, November 10, 1953.

Thereupon the meeting adjourned.



Assistant Secretary