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, March 1, 1948, at 11:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Evans (alternate member)
Mr. Szymczak
Mr. Williams

Messrs. Clayton and Gilbert, Members of the Federal Open Market Committee

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager of the System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Mr. McCabe, Chairman designate of the Board of Governors

Upon motion duly made and seconded, and by unanimous vote, Mr. Sproul was reelected Vice Chairman of the executive committee to serve until the election of his successor at the first meeting of the executive committee after February 28, 1949.

With respect to the authority to be given to the Federal Reserve Bank of New York to execute transactions for the System account, it was stated that, as had been discussed at the meeting of the full Committee this morning, the System open market account probably would have to purchase very substantial amounts of Government securities during the next five weeks and that, since the amount of offsetting sales and redemptions from the account might be small, the greater portion of the authority given to the executive committee should be given to the Bank. It was agreed to fix the limitation on the first paragraph of the authority at $2 billion with the understanding that, if necessary, it would be increased by telephone approval of the members of the committee. It was also suggested that the limitation in the second paragraph of the direction with respect to purchases of securities direct from the Treasury be continued at the present figure of $750 million and that the wording of the direction be changed to bring it into agreement with the direction from the Federal Open Market Committee to the executive committee as approved at the meeting of the full Committee this morning.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York, until otherwise directed by the executive committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, as may be necessary, in the light of the general credit situation of the country, for the

practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the needs of commerce and business; 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 $2,000,000,000 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 $750,000,000.

In taking this action it was understood that the limitation contained in the direction included commitments for purchases and sales of securities for the System account.

There was a further discussion of the recommendations to be made to the Treasury as outlined at the meetings of the Federal Open Market Committee on February 27 and this morning. Chairman Eccles stated that the staff was working on a letter which would contain the four recommendations agreed upon, and that the draft of letter would be submitted to all members of the executive committee for approval.

There followed a brief review of the recommendations to be made, and it was agreed that the draft of letter containing the recommendations should be prepared and submitted to the members of the executive committee for their consideration as promptly as possible.

Secretary's Note: The letter sent to the Treasury on March 8, 1948, with the approval of the members of the executive committee read as follows:

"The Federal Open Market Committee, at meetings on February 27 and March 1, reviewed the general credit position and related problems of debt management in the light of changes in the economic situation which have taken place since its previous meeting. It was the opinion of the Committee that inflationary pressures are still strong in our economy, despite the sharp decline in commodity prices during February, and that there is as yet no convincing evidence that the need for restraint upon borrowers and lenders of credit has passed. In the light of this general finding, and for more specific reasons which are mentioned below, the Committee believes that we should continue the program of credit control and debt management we have been following for the past several months, and makes the following four point recommendation to the Treasury.

"(1) In view of an expected substantial net drain on bank reserves in March, resulting from an excess of Treasury receipts over expenditures, no further calls on war loan accounts are recommended (during March) except as may become necessary for money market reasons in event withheld taxes are channeled through war loan accounts as suggested in paragraph (4) below.

"(2) Federal Reserve holdings of maturing certificates on April 1 should be redeemed and the retirement of Treasury bills should be continued as long as funds are available. In order to make the weekly maturities of bills more clearly even in amount, it is suggested that 200 million dollars be retired on March 18, 300 million on April 1 and April 8, and 100 million in other weeks.

"(3) An 11-month 1-1/8 per cent certificate issue should be offered in exchange for the 7/8 per cent issue maturing April 1, 1948. This would accomplish a desirable consolidation of the small April 1 issue with the outstanding March 1 maturities, and would pave the way for an increase in the one year certificate rate to 1-1/4 per cent, as of June 1, if the credit situation and the situation in the Government securities market confirm present expectations that such action will be desirable when the June 1 financing terms are determined. On the other hand, if there should be a "complete reversal of existing pressures in the intervening weeks, the Treasury would still be free to fix the terms of the June 1 financing in the light of these changed circumstances.

"The Committee wishes to emphasize that in the absence of such a complete change in the existing situation its recommendation of an eleven months 1-1/8 per cent certificate to be issued as of April 1 is predicated upon the assumption that the one-year rate will move up to 1-1/4 per cent with the June 1 issue. Otherwise we might find ourselves in the untenable position of appearing to reduce rates and release pressure (by issuing a one-year 1-1/8 per cent certificate on June 1 following the eleven months 1-1/8 per cent certificate on April 1), at a time when credit policy and the condition of the Government security market counselled contrary action.

"(4) As a means of providing better control of the impact of Treasury transactions on the money market, we are in accord with your proposal that the payment of withheld income taxes through bank depositaries should be channeled into war loan accounts rather than directly into the Federal Reserve Banks. Calls on war loan deposits would presumably be timed in the future, as they have been in the past, after consultation between the Treasury and the Federal Reserve, with a view to obtaining desirable money market effects. If the procedure for channeling withheld taxes through war loan accounts is not put into effect before the middle of March, no calls on those accounts will be needed before April.

"We should be glad to discuss these recommendations with you, at your early convenience, and particularly our recommendation with respect to the April 1 financing, but perhaps it will be helpful to our discussion if we indicate here what underlies the latter recommendation. Briefly, we are of the opinion that from the standpoint of balance in the Government security market and the maintenance of an effective monetary policy, some further narrowing of the spread between short and long-term rates is necessary, and that the April 1 maturity offers an excellent opportunity to take the first step toward this objective, since there will be a period of two months (between the April 1 announcement and the June 1 announcement) within which to smooth the market effects of the transition to the higher rate. Our purpose in moving to a higher "rate would be to increase the attractiveness of short securities, both in relation to the longer term obligations and to other outlets for bank funds.

"It now appears likely that pressure on the banks' reserves will be greatly lessened after the first quarter of the year and that banks may actually acquire additional reserve funds (as a result of Treasury transactions, gold imports, and other factors). In these circumstances, it seems to us imperative that the commercial banks be encouraged to purchase short-term Government securities from the Federal Reserve Banks (in order to absorb their excess funds) rather than the System's holding of bonds, or to seek other outlets which would further increase the supply of credit at the disposal of the public. Otherwise we may again be faced with the problem of 'playing the pattern of rates', with downward pressure on the long-term rate reasserting itself, or with a further unnecessary expansion of bank loans, or both. And, finally, our hands would be tied, at a most inappropriate time, with respect to a further increase in the discount rate of the Federal Reserve Banks, unless the certificate rate had also been advanced.

"The executive committee of the Federal Open Market Committee will be meeting from time to time to canvass the situation further as it develops during the second quarter of the year."

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.