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, February 6, 1950, at 2:10 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Leach
Mr. Vardaman

Mr. Szymczak, Member 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. Riefler, Assistant to the Chairman, Board of Governors
Mr. Young, Director, Division of Research and Statistics, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on January 6, 1950, were approved.

On January 16, 1950, in view of changes which it was expected would occur in the Government securities market following the Treasury announcement of a 1-1/4 per cent 20-month note in exchange for the certificates maturing on February 1, 1950, Mr. Rouse suggested a revision upward in the ranges within which the Federal Reserve Bank of New York was authorized to purchase and sell bills and certificates for the System open market account. This matter was discussed informally with the members of the executive committee and they approved an increase in the range on bills from 1.04-1.12 to 1.06-1.14 and in the range on certificates from 1.08-1.12 to 1.09-1.17.

> Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee in approving the higher ranges set forth above was approved, ratified, and confirmed.

Before this meeting Mr. Rouse sent to each of the members of the committee a report of open market operations covering the period from January 6 to 31, 1950, inclusive. At this meeting he submitted and commented on a supplemental report covering operations executed during the period February 1-3, 1950, inclusive.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period January 6 to February 3, 1950, inclusive, were approved, ratified, and confirmed.

Chairman McCabe stated that there had been no important developments with respect to open market operations and Treasury financing since the last meeting of the executive committee of which the members of the committee were not informed.

The discussion then turned to the recommendations to be made to the Treasury with respect to forthcoming refunding operations and in that connection consideration was given to a memorandum prepared under date of February 1, 1950, by Messrs. Thomas and Youngdahl and sent to the members of the committee before this meeting.

After setting forth the factors to be kept in mind in reaching decisions on refunding the $9.5 billion of bonds, notes, and certificates maturing on March 1 and 15 and April 1, the memorandum suggested that, on the basis of the view that it would be desirable to have a one-year rate of not less than 1-1/4 per cent at the earliest possible date and that certificate issues should be consolidated, it would be preferable to refund the March 1 and March 15 issues (totaling $4.9 billion) with a 1-1/4 per cent note maturing April 1, 1951, and the April 1 maturities (totaling $4.6 billion) with a 1-1/2 per cent 4-1/2- to 5-year note or a 1-3/8 per cent 3-1/2-year note. The memorandum also stated that, since it appeared unlikely that market conditions would be suitable by the middle of February for the announcement of a 1-1/4 per cent 13-month issue on March 1 and in view of the probable Treasury reluctance to move that far, it was recommended that the March 1 and 15 issues be refunded by a 1-1/2 per cent issue with a maturity based on market conditions at the time of the announcement or with a 1-3/8 per cent

3- to 3-1/2-year note, and that the April 1 issues be refunded with a 1-1/4 per cent 12-month certificate or 15-month note.

The memorandum expressed the view that in any case a specific decision on the April 1 refunding need not and should not be made before March and should depend on then existing and prospective market conditions.

Mr. Sproul referred to the report submitted to the Treasury by the American Bankers Association Committee on Government Borrowing which met with representatives of the Treasury on February 2 and 3. The report suggested an exchange of a five-year 1-1/2 per cent note for the March 1 and 15 maturities and a 15-month 1-1/4 per cent note for the April 1 maturity, with an alternative suggestion that the Treasury consider announcing at one time that the notes and bonds maturing on March 15 and April 1 ($5.6 billion) would be refunded into a five-year 1-1/2 per cent issue and that the March 1 and April 1 certificates ($3.9 billion) would be refunded into a 1-1/4 per cent note of about 16 months' maturity. With respect to new money financing Mr. Sproul stated that the report suggested that the most feasible step in this direction now appeared to be the issuance of a 1-3/4 per cent bond having a maturity of about 10 years and a call date of about 8 years.

During the ensuing discussion, reference was made to the series of slides shown at the Treasury to the American Bankers

Association Committee on Government Borrowing while the Committee was in Washington last week and to certain members of the Board of Governors and its staff this morning in which the Treasury representatives set forth a position that it would not be possible to obtain any appreciable amount of new funds during the course of the calendar year from private investment sources and that, therefore, it would be necessary to obtain funds with which to finance prospective Treasury deficits largely from the banks.

Mr. Thomas outlined the reasons why in the view of the staff that was not the case and why there were possibilities that private investment funds could be tapped for a substantial part of Treasury requirements for new money.

Chairman McCabe suggested that consideration be given to refunding the $9.5 billion of marketable Government securities maturing in March and April with a 1-1/2 per cent issue maturing in about five years. He felt that such an operation would be attractive for several reasons, but stated that if there were any indication that the maturity of the proposed issue would be much beyond five years he would not recommend it. If such an operation were undertaken, he said, the Treasury might wish to raise such new money as it might need between now and the June financing by increased issues of bills and to offer in connection with the June refunding a security which would be designed to attract nonbank investment funds.

The merits of the various proposals outlined above were discussed and it was brought out that if the March and April refunding were announced at one time it should be on the basis of a complete refunding operation as of March 1 or March 15 so that the operation would not be overhanging the market until sometime late in March. Mr. Rouse stated that he had checked this point with the Commissioner of the Public Debt and that it would be feasible to handle the operation in that manner.

The consensus of those present was that two separate offerings for the March and April maturities would be preferable for the reason that, depending on market developments, such a course might lead more quickly to the establishment of a 1-1/4 per cent one-year rate and should be more acceptable to the Treasury as it would result in lower financing costs on the new issues than on the maturing obligations.

There was a discussion of possible market reactions to the various proposals and also of when the announcement of the March refunding should be made. In response to a suggestion that action be taken in the market to increase short-term rates to a point which would call for the issuance in connection with the March refunding of a 1-1/2 per cent obligation with a maturity not to exceed five years, it was stated that during the period before the financing announcement there was little likelihood that market conditions would move the rate to a higher level and that it had not been System policy in the recent period to force the short-term rate up. It was also stated that, if it should develop that the Treasury was not willing to issue a 1-1/4 per cent note of less than a 15- or 16-month maturity, that would still be a move in the direction of a 1-1/4 per cent one-year rate, which would serve the purposes of the System policy.

At the conclusion of the discussion, it was agreed unanimously that the recommendation to the Treasury should be that the March maturities be refunded with a 1-1/2 per cent issue having a maturity reflecting the market, that the decision on the April refunding be deferred for about 30 days, and that at the proper time the representatives of the committee would be prepared to discuss with the Treasury deficit financing plans which would be based on the approach of getting as much of the new funds as possible from nonbank investment sources.

In reaching this agreement it was understood that a letter would be prepared to the Secretary of the Treasury setting forth the recommendations of the committee, that the letter would be sent when it was in a form satisfactory to Messrs. McCabe and Sproul, and that in their conversations with the Treasury regarding the financing they would be free to discuss with the Treasury representatives the various alternative proposals that had been considered at this meeting.

There was also a discussion of whether the letter to Secretary Snyder should be sent to the Treasury before the Secretary returned to the city on Monday, February 13, or should be sent to him in Florida, and whether discussions might be held with other representatives of the Treasury preliminary to the discussions with the Secretary. No decision was reached on these questions and it was understood that when the letter was in a form satisfactory to Messrs. McCabe and Sproul they would decide how it should be presented and discussed with the Treasury.

> Secretary's Note: The letter prepared in accordance with the above understandings and sent to Secretary Snyder at the Treasury under date of February 9, 1950, was in the following form:

"The executive committee of the Federal Open Market Committee has considered, in the light of the current strength in the general economy and the over-all task of debt management during the next year, the recommendations which the committee might make to the Treasury with respect to refunding the various issues of Government securities maturing in March and April.

"It was our view, in line with the offering in February, that further steps should be taken to reduce the number of maturities.

"After considering various possible alternatives, we would recommend that a 1-1/2 per cent issue with maturity fixed in accordance with market conditions at the time of the announcement be offered in exchange for both the $2.9 billion of certificates maturing March 1 and the $2.0 billion of bonds that have been called for redemption March 15. It would, of course, be desirable to have the subscription books for exchange of both of these issues opened and closed simultaneously.

"Decision as to an offering in exchange for the $3.6 billion of notes and $1.0 billion of certificates "maturing April 1 might well be withheld until next month. This would give an opportunity for another review of the economic outlook and the selection of an offering that would be in accordance with money market trends and policies at the time.

"The committee also gave consideration to your problem of raising new money to meet the Treasury deficit during the remainder of this calendar year. You appreciate how important it is from the standpoint of the general economy to raise as large an amount as possible through sales of securities to nonbank investors and you, like we, are studying specific proposals to this end. We would welcome the opportunity for our staff to exchange ideas with your staff on this subject. The unusual combination of strong demands in the private economy and a budget deficit obviously calls for policies which will temper expansionary credit pressures. The recent and prospective further growth in savings and in liquid asset holdings of various investor groups and the current demand for bonds indicate that in the aggregate a substantial amount of funds should be available for long-term investment from sources other than commercial banks. You also appreciate, we know, that to the extent the Treasury can attract these funds by new offerings and keep down its sales of securities to banks, forces making for undue monetary expansion can be moderated, and the likelihood of a sustained period of high production and employment can be increased. The Open Market Committee will be giving further consideration to this important aspect of Treasury financing and we shall want to discuss it with you when we have more specific proposals.

"In connection with the immediate refunding decision, Mr. Sproul and I would be glad to meet with you and discuss further the committee's views."

It was also understood that consideration would be given at the meeting of the full Committee on March 1 to the recommendations to be made to the Treasury with respect to deficit financing during the remainder of the calendar year.

Reference was then made to the ranges at which Treasury bills and certificates were purchased and sold for the System account and Mr. Rouse suggested that, in view of the possibility that the short-term market might move to somewhat higher ground following the announcement of the March refunding, there should be some increase in the ranges. He stated that the range might be increased from 1.06-1.14 to 1.08-1.16 on bills and from 1.09-1.17 to 1.12-1.20 on certificates. The maxima of these ranges, he said, would not be regarded as goals to be reached before the next meeting of the committee but rather as the extent to which the short-term market would be permitted to rise if market forces should carry short-term rates to those levels.

After a discussion, it was the decision of the committee that it would make no change in the rates at this time and that, if, after the March refunding was completed, some increase in the ranges appeared to be justified, such increases could be put into effect upon approval by telephone or otherwise by the members of the executive committee.

It was unanimously agreed that no change should be made in the existing understanding of the executive committee with respect to (1) the replacement of maturing Treasury bills held in the System account or (2) the sale of long-term securities from the account.

There was also agreement that no change need be made at this time in the general direction to the Federal Reserve Bank of

New York to effect transactions in the System account and that the direction issued at the meeting of the committee on January 6, 1950, should be renewed.

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 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 changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of 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 $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 $500 million.

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.

On the understanding that the next meeting of the Presidents' Conference would be held on February 27, 1950, and that a joint meeting of the Board and the Presidents would be held on the afternoon of March 1, it was understood that the next meeting of the executive committee would be called for 9:00 a.m. on the morning of February 28 with a meeting of the full Committee at 10:00 a.m. on the same day to be followed by a meeting of the full Committee on the following day, March 1.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Thomas B. McCabe
Chairman.