

A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Friday, March 1, 1946, at 10:10 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Leach
Mr. McLarin
Mr. Young
Mr. Clerk

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thomas and Mr. John H. Williams, Associate Economists
Mr. Rouse, Manager of the System Open Market Account
Mr. Thurston, Assistant to the Chairman of the Board of Governors
Messrs. Piser and Kennedy, Chief and Assistant Chief, respectively, of the Government Securities Section, Division of Research and Statistics of the Board of Governors
Mr. Connell, General Assistant, Office of the Secretary of the Board of Governors

Messrs. Whittemore, Gidney, Davis, and Peyton, alternate members of the Federal Open Market Committee

Messrs. Alfred H. Williams, Leedy and Gilbert, Presidents of the Federal Reserve Banks of Philadelphia, Kansas City, and Dallas, respectively.

The Secretary reported that advices of the election for a period of one year commencing March 1, 1946, of members and alternate members

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of the Federal Open Market Committee representing the Federal Reserve Banks had been received, that each newly elected member and alternate member had executed the required oath of office, and that it was the opinion of the Committee's counsel on the basis of the advices received that the following members and alternate members were legally qualified to serve:

- Allan Sproul, President of the Federal Reserve Bank of New York, with L. R. Rounds, First Vice President of the Federal Reserve Bank of New York, as alternate member;
- Hugh Leach, President of the Federal Reserve Bank of Richmond, with Laurence F. Whittemore, President of the Federal Reserve Bank of Boston, as alternate member;
- C. S. Young, President of the Federal Reserve Bank of Chicago, with Ray M. Gidney, President of the Federal Reserve Bank of Cleveland, as alternate member;
- W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, with Chester C. Davis, President of the Federal Reserve Bank of St. Louis, as alternate member; and
- Ira Clerk, President of the Federal Reserve Bank of San Francisco, with J. N. Peyton, President of the Federal Reserve Bank of Minneapolis, as alternate member.

Upon motions duly made and seconded, and by unanimous votes, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1947, with the understanding that in the event of discontinuance of their official connection with the Board or a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee. In connection with the election of Mr. Morrill it was agreed unanimously that the by-laws of the Federal Open Market Committee, which provide that the

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Secretary of the Board of Governors shall be Secretary of the Committee, should not be changed, but that Mr. Morrill should continue to serve as Secretary notwithstanding the applicable provision of the by-laws:

Marriner S. Eccles, Chairman
Allan Sproul, Vice Chairman
Chester Morrill, Secretary
S. R. Carpenter, Assistant Secretary
Woodlief Thomas, Economist
E. A. Kincaid, John K. Langum, Earle L. Rauber, O. P. Wheeler, and John H. Williams, Associate Economists
George B. Vest, General Counsel
J. Leonard Townsend, Assistant General Counsel

Mr. Vest entered the meeting at this point.

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after February 28, 1947.

Mr. Sproul stated that the board of directors of the Federal Reserve Bank of New York had selected Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System account and his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

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Upon motions duly made and seconded, and by unanimous votes, the following were selected to serve with the Chairman of the Federal Open Market Committee (who, under the provisions of the by-laws, is also Chairman of the executive committee) as members and alternate members of the executive committee until the selection of their successors at the first meeting of the Federal Open Market Committee after February 28, 1947, except that Mr. McKee was selected to serve as an alternate only during the period in which he continued to serve as a member of the Board of Governors; and his successor, effective as of the date he qualifies as a member of the Board, was appointed to serve in the position of alternate in the place of Mr. McKee:

Members

Ernest G. Draper
R. M. Evans

Allan Sproul
Hugh Leach

Alternate Members

M. S. Szymczak
John K. McKee
Ronald Ransom

(To serve in the order named as alternates for Messrs. Eccles, Draper, and Evans, except that, in the absence of Chairman Eccles, Mr. Ransom would serve as the first alternate.)

C. S. Young and W. S. McLarin, Jr.
(To serve in the order named as alternates for Messrs. Sproul and Leach.)

Mr. Flanders, Consultant to the Board of Directors of the Federal Reserve Bank of Boston, Mr. Hardy, Vice President of the Federal Reserve Bank of Kansas City, Mr. Hostetler, Manager, Research Department, Federal Reserve Bank of Cleveland, Mr. Sienkiewicz, Vice President, Federal Reserve Bank of Philadelphia, Mr. Irons, Director of Research, Federal Reserve Bank of Dallas, Mr. Morse, Assistant Director, Division of Research and

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Statistics, Board of Governors, and Mr. Townsend, Assistant General Counsel, joined the meeting at this point.

Chairman Eccles then called for the reports of the economists and, at Mr. Thomas' request, Mr. Hardy summarized the observations in his paper "Prospects for Inflation in the Transition Period" which is to be included in the postwar economic studies being published by the Board of Governors. His statement was followed by comments by Messrs. Thomas and John H. Williams. Summaries of these two statements are attached and copies have been placed in the files of the Federal Open Market Committee.

Following a brief discussion of some of the problems presented by the economists, particularly with respect to production, prices, and wages, their effect on the economy, and the policies that should be adopted with respect to them, the meeting recessed and reconvened at 2:10 p.m., with the same attendance as at the beginning of the morning session except that Messrs. Davis and Peyton were not present and Messrs. Vest and Townsend were in attendance.

Reference was made to the resolution adopted by the Federal Open Market Committee on November 20, 1936, authorizing the Federal Reserve Banks, subject to the provisions of Section 14 of the Federal Reserve Act, as amended, and the regulations, conditions, and limitations of the Board of Governors prescribed thereunder, but without further direction or authorization from the Federal Open Market Committee, to purchase and

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sell at home or abroad cable transfers, and bills of exchange and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales might be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries. As stated at the meeting of the Committee on March 1, 1945, when this resolution was last considered, the purpose of this action was to simplify the procedure in connection with the handling of accounts with foreign central banks which were subject to special supervision by the Board of Governors of the Federal Reserve System under Section 14 of the Federal Reserve Act.

Mr. Sproul stated that this authority permitted purchases and sales necessary to the maintenance of four accounts which the Federal Reserve Bank of New York had with the Bank of Canada, the Bank of England, the Bank of France, and the Bank for International Settlements, that the amounts in these accounts were relatively very small, that the need for the continuation of the authority still existed, and that if it were discontinued it would be necessary to obtain specific approval of the Federal Open Market Committee of small transactions executed in the management of the accounts.

There was unanimous agreement that no action should be taken with respect to the resolution at this time.

Reference was also made to the decision reached at the meeting of

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the Committee on November 30, 1937, that, since securities acquired by Federal Reserve Banks in settlement of claims account closed banks would be so small as to be unimportant from the standpoint of credit control, the Committee would interpose no objection to Federal Reserve Banks holding such securities or to the sale of such securities whenever deemed to be advisable by the holding bank.

At the meeting of the Committee on March 1, 1945, consideration was given to the termination of the authority inasmuch as it had not been used for a considerable period. At that time Mr. Gidney expressed the opinion that the authority should be continued as none of the Federal Reserve Banks could foresee when they might be called upon to use it in connection with securities held as collateral for advances to a member bank which had become insolvent.

At this meeting Mr. Gidney said that he continued to be of the same opinion.

It was agreed unanimously that no action should be taken at this time to terminate or amend the authority.

Turning to a discussion of credit policy and the policies of the Treasury with respect to the Government debt, Chairman Eccles stated that it would be difficult to distinguish between the nature of the discussions that had already been had with representatives of the Treasury with respect to future policy and the discussions which might be held in the near future. He felt, however, that, having in mind the program that had

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been proposed in connection with the retirement of the public debt over the next few months, consideration might be given to what should be done with respect to the preferential discount rate of 1/2 per cent now in effect at the Federal Reserve Banks and the rate of 3/8 per cent at which the Federal Reserve Banks buy Treasury bills. It was his view that it would be preferable to withhold action on these matters until a decision was made by the Treasury on the amount of certificates maturing in April that were to be retired, as the possible effects of the elimination of the two rates at this time were not as important as the continuation of the program of retirement of the Government debt under which from one to two billion dollars of April certificates would be paid off.

It was the general consensus that informal consideration should be given by the Presidents and the Board of Governors, as such, to the action that should be taken on the preferential discount rate and the meeting recessed for that purpose.

Following the informal discussion of the Presidents and the members of the Board the meeting of the Federal Open Market Committee reconvened for the purpose of considering the action to be taken with respect to the rate of 3/8 per cent on Treasury bills.

A memorandum of the informal discussion of the Presidents and the Board has been placed in the files of the Board of Governors.

It being understood that no immediate action had been decided upon with respect to the elimination of the preferential discount rate, there was unanimous agreement that no action should be taken at this time

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to change the direction issued to the Federal Reserve Banks at the meeting of the Federal Open Market Committee on March 1, 1945, relating to the purchase by the Banks of Treasury bills.

It was also agreed that, as was understood at the meeting of the Federal Open Market Committee on October 17, 1945, the executive committee would continue to have such discussions with representatives of the Treasury as conditions might require on questions as to policies that should be adopted for the future.

In connection with the authority to be granted to the executive committee to execute transactions for the System open market account, Chairman Eccles suggested that, in view of the large transactions that would take place in the account arising from the needs for reserve funds in connection with the program for retirement of the public debt and the redemption of securities in the System account, the limitation on the authority to the executive committee to increase or decrease the total amount of securities in the System account should be fixed at \$3 billion instead of \$2 billion.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved, with the understanding that the limitations contained in the direction would include commitments for purchases and sales of securities for the System account:

The executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present

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general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury] shall not be increased or decreased by more than \$3,000,000,000.

That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of 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 amount of such certificates held in the account at any one time shall not exceed \$1,500,000,000.

Mr. McLarin stated that he still felt that, for the reasons which he gave at the meeting of the Federal Open Market Committee on March 1, 1945, the Reserve Banks should have authority to maintain a small portfolio of Government securities to enable the Banks to purchase securities directly from, and sell securities directly to, the smaller member banks, and that at the proper time he would like to bring the matter up for further discussion by the Committee.

It was tentatively agreed that the next meeting of the Federal Open Market Committee would be held during the week beginning June 3, 1946.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.