

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 Monday, February 28, 1949, at 10:20 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Clayton
Mr. Draper
Mr. Eccles
Mr. Gilbert
Mr. Leedy
Mr. Szymczak
Mr. Vardaman
Mr. Williams
Mr. Young

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Bopp, Irons, Langum, Robb, and
John H. Williams, Associate Economists
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. Sherman, Assistant Secretary, Board
of Governors
Mr. Ralph A. Young, Associate Director,
Division of Research and Statistics,
Board of Governors
Mr. T. L. Smith, Economist, Government
Finance Section, Division of Research
and Statistics, Board of Governors
Mr. Arthur Willis, Special Assistant,
Securities Department, Federal Reserve
Bank of New York

Messrs. Gidney, Leach, McLarin, and Earhart,
alternate members of the Federal Open
Market Committee

Messrs. Erickson, Davis, and Peyton, Presidents

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of the Federal Reserve Banks of Boston,
St. Louis, and Minneapolis, respectively

Mr. Raisty, Economist, Federal Reserve
Bank of Atlanta

Upon motion duly made and seconded,
and by unanimous vote, the minutes of the
meeting of the Federal Open Market Com-
mittee held on November 30, 1948, were
approved.

Upon motion duly made and seconded,
and by unanimous vote, the actions of the
executive committee of the Federal Open
Market Committee as set forth in the min-
utes of the meetings of the executive
committee held on November 30, 1948, and
January 4 and 26, 1949, were approved,
ratified, and confirmed.

Mr. Rouse then read and discussed a report of open market opera-
tions prepared by the Federal Reserve Bank of New York covering the
period from November 30, 1948, to February 23, 1949, inclusive. He also
presented a supplementary report covering commitments on February 24
and 25, 1949. 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 account for the period
November 30, 1948, through February 27,
1949, were approved, ratified, and con-
firmed.

Mr. Rouse referred to the procedure for the allocation of secu-
rities in the System open market account, which was put into effect in
January 1948, in a revised form, stating that the new method was work-
ing satisfactorily and that no adverse comment regarding the procedure had

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been received from the Federal Reserve Banks, and that he had no changes to suggest at this time.

Mr. Rouse also referred to the terms upon which the New York Federal Reserve Bank, as agent for the Federal Open Market Committee, will transact business with brokers and dealers in Government securities for the System open market account. He reviewed briefly the complaint made by certain unqualified dealers last year, when the System was purchasing large amounts of Government securities, that unqualified dealers were in effect being excluded from the market. He also reviewed the consideration given to these complaints by the Federal Open Market Committee, and the reasons for the conclusion at that time that no change should be made in the statement of terms. He added that there was nothing in the present situation that would warrant a change in the terms.

The reports of the economists were then called for and Mr. Thomas asked Mr. John H. Williams to make a statement with respect to the international situation and outlook.

Mr. Williams reviewed developments in economic activity in Europe since the end of the war, comparing the progress with that made in other periods. He also discussed the efforts of western European countries to increase their exports by widening trade areas throughout the world and the situation with respect to supplies of food and raw materials which had to be imported by those countries. He stated that the situation appeared to be very encouraging until one

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started to look ahead for the next three or four years, especially to the time when the present program of aid under the Economic Cooperation Administration would come to an end in 1952, and he expressed the view that it would be difficult for the western European countries to maintain their balance of payments after that period, and that a readjustment of currencies in some western European countries should be expected because such currencies were overvalued in relation to the dollar.

Following a discussion of Mr. Williams' remarks, Mr. Thomas made a statement on the domestic economic situation and outlook. He referred especially to recent declines in prices, stating that the declines were probably more helpful than hurtful to the economy and that the outlook continued to offer the possibility of a resumption of inflationary developments as well as a possibility of a sharp deflationary development or a continuance of a middle-of-the-road course, with further readjustments which would be helpful in bringing about greater stability in the economy. He expressed the view that the more likely development would be the intermediate stage with no more than a moderate recession. In commenting upon the banking situation, Mr. Thomas stated that there had been a definite slackening in the growth of bank credit since last year and even more evidence in the opening months of this year that credit was not expanding rapidly.

Copies of Mr. Williams' talk and a paper on the current

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economic situation, prepared in the Board's Division of Research and Statistics, to which Mr. Thomas referred in his remarks, have been placed in the files of the Federal Open Market Committee.

During a discussion of Mr. Thomas' remarks, supplementary comments were made by Messrs. Langum, Bopp, Raisty, Robb, Irons, Rief-ler, and John H. Williams, as well as members of the Committee, and it was the consensus that, while there could be a marked movement either up or down, there was strong likelihood that a downward move-ment would not go far and that readjustments could continue for a con-siderable period of time.

Thereupon the meeting adjourned.

Walter Morrie
Secretary.

Approved:

Thomas B. Lu: Calie
Chairman.