

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 Tuesday, February 28, 1950, at 9:40 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Draper  
Mr. Earhart  
Mr. Eccles  
Mr. Gidney  
Mr. Leach  
Mr. McLarin  
Mr. Szymczak

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Thomas, Economist  
Messrs. Thompson, C. W. Williams, 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. 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

Messrs. Erickson, Young, Davis, and Peyton,  
alternate members of the Federal Open  
Market Committee

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

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Mr. Stead, Vice President, Federal Reserve  
Bank of St. Louis

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on December 13, 1949, 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 minutes of the meetings of the executive committee held on December 13, 1949, and January 6 and February 6, 1950, were approved, ratified, and confirmed.

Before this meeting there had been sent to each member of the Committee a report, prepared at the Federal Reserve Bank of New York, of operations in the System open market account covering the period December 13, 1949, to February 21, 1950, inclusive. At this meeting Mr. Rouse presented a supplementary report covering commitments executed during the period February 23 to 27, 1950, inclusive.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period December 13, 1949, to February 27, 1950, inclusive, were approved, ratified, and confirmed.

Chairman McCabe reviewed discussions with the Secretary of the Treasury subsequent to the meeting of the executive committee held on February 6, 1950, and other developments leading up to the announcement by the Treasury of the terms of the refunding of securities maturing during March and April 1950.

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Chairman McCabe also said that while the Committee on Government Borrowing of the American Bankers Association was in Washington for the purpose of discussing the March and April financing and making recommendations to the Treasury thereon, he (Chairman McCabe) met with the Committee at its urgent invitation to discuss the financing. After commenting on the questions which he had considered as to the advisability of accepting the invitation and its possible implications, as well as the nature of the discussion at the meeting, he asked for the opinion of the other members of the Federal Open Market Committee as to whether he should continue to meet with the Committee when it came to Washington. He stated that while there were some advantages in talking with the Committee, such an arrangement could be the cause of difficulties in the future. He added that he had met with the Committee on this occasion only because some of the members urged that he do so.

During a discussion of the matter, it was pointed out that the Treasury's presentation to the members of the Committee did not attempt to cover the business and credit situation, that the Board's staff was better equipped than any other group in Washington to review current economic and credit conditions, and that the Committee should have that background for its discussions of Treasury financing. It was suggested that the Committee might be invited to the Board's offices for such a presentation during which

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the financing could be discussed in general terms without disclosing any conclusions that might have been reached by the executive committee or the Federal Open Market Committee. The further comment was made that the recent Treasury presentation to the Committee created the impression that any funds raised in new financing this year would have to come from banks as it appeared that there was no substantial amount of nonbank funds available for investment in Government securities, while the staff of the Board and the Federal Open Market Committee felt that substantial amounts of nonbank funds could be attracted if the right kind of securities were offered by the Treasury.

At the conclusion of the discussion, no objection was expressed to further meetings by Chairman McCabe with the Committee if he felt it advisable, and it was understood that he would give further consideration to the procedure that should be followed in this connection in the future.

At this point Chairman McCabe and Mr. Vest withdrew from the meeting for the purpose of completing the statement to be made by Chairman McCabe tomorrow morning before the Senate Banking and Currency Committee on the bank holding company bill.

Mr. Sproul then called upon Mr. Thomas for a report on the economic situation.

In his remarks, Mr. Thomas referred to the following memoranda

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sent to members of the Committee before this meeting, copies of which have been placed in the files of the Federal Open Market Committee: (a) Current Economic Trends and Prospects, prepared in the Division of Research and Statistics of the Board under date of February 24, 1950, (b) Outlook for bank reserves and Treasury cash requirements dated February 21, 1950, and (c) New Treasury Financing in 1950, prepared by an ad hoc research committee of the System Research Advisory Committee under date of February 23, 1950. Mr. Thomas stated that developments in 1949 had lessened the major fears of inflation and depression, that the principal postwar readjustments had been almost completed, that the economy was now closer to "normalcy" than at any time since prewar and probably since the 1920's, and that the prospects for 1950 were on the whole for continuation of economic activity at moderately high levels with some uncertainties and the likelihood of some decreases toward the end of the year. Mr. Thomas also referred to some of the problems that might develop, perhaps in the latter part of 1950, when the backlog of demands on the part of business and consumers that were now in the picture were satisfied, including eventual termination of the unusual demands for automobiles and housing and a smaller export balance when foreign aid was reduced or ended. Mr. Thomas pointed out that the prospective Federal cash deficit would probably exceed \$7 billion for the calendar year 1950 and that nearly

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\$2 billion would be needed to cover cash redemptions of maturing marketable securities. About \$2 billion might be met by drawing down the cash balance of the Treasury and over \$2 billion might be raised from sale of savings bonds and notes in excess of redemptions. Additional new financing would need to be around \$5 billion. Since new corporate security issues and the increase in mortgages would probably be somewhat less than in 1949 and the volume of lendable funds larger, nonbank investors should be able to absorb all of the additional borrowing by the Treasury. He also stated that demand for bank credit would probably increase somewhat, apart from any increase in holdings of Government securities by banks, with a resulting expansion in bank deposits.

Mr. Thomas indicated that under the circumstances the appropriate Federal Reserve policy would seem to be one of neutrality as to the supply of reserves, with easy money definitely not needed and vigorous restrictive measures probably unnecessary, but with changes in the demands for credit reflected in interest rates. The situation called for debt management policies, he stated, which would (a) continue to refund maturing Treasury issues into intermediate issues, (b) avoid increasing the outstanding supply of bills or other short-term issues which would attract only bank funds and particularly any that would require Federal Reserve support, (c) move toward higher rates on short-term issues when necessary to

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discourage their sales to the Reserve System in connection with shifts to longer-term securities, and (d) raise new money needed by offering long-term nonmarketable issues attractive to nonbank investors.

In response to a suggestion from Mr. Sproul, each of the Presidents of the Federal Reserve Banks commented on conditions in his district and, while there were variations in some districts, their comments on regional conditions largely corroborated Mr. Thomas' statement with respect to the national outlook.

There followed a discussion of the question whether the present relatively high level of economic activity was being maintained largely because of deficit financing by the Federal Government and of what might be expected to sustain effective demand if unemployment increased further, agricultural prices and income declined further, and consumer credit ceased to expand.

Mr. Sproul then called on Mr. John H. Williams for a statement with respect to the recent trip which he made to Europe at the request of the Organization of European Economic Cooperation (OEEC) to assist in the preparation of the second interim report of OEEC which had since been published and which was one of the bases for the request for appropriations for the Economic Cooperation Administration for the next fiscal year on which hearings were being held in the Congress. A copy of Mr. Williams'

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statement has been placed in the files of the Federal Open Market Committee.

Following Mr. Williams' statement, there was a discussion of problems facing the United States between now and the end of the ECA program in 1952, some of which are expected to continue after that date.

At the conclusion of the discussion, the meeting adjourned.

Chester Morrie  
Secretary.

Approved:

Thomas B. Lee Cole  
Chairman.