

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 Wednesday, December 5, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Evans
Mr. Alfred H. Williams
Mr. McKee (Alternate for Mr. Szymczak)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Vest, Assistant General Counsel
Mr. Rouse, Manager of the System Open Market Account
Mr. Goldenweiser, Economist of the Federal Open Market Committee
Mr. Thomas, Associate Economist of the Federal Open Market Committee
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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on October 17, 1945, were approved.

During the latter part of November, 1945, the Federal Reserve Bank of New York, in carrying out the direction issued by the executive committee, purchased further large amounts of securities for the purpose of supplying funds to the market and on November 26, 1945, the members of the executive committee approved an increase from \$500 million to \$1 billion in the limitation on the authority granted to the Federal Reserve Bank of New York to execute transactions for the System Open Market account as

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contained in the direction issued at the meeting of the executive committee on October 17, 1945.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee was approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period October 17 to December 4, 1945, inclusive, as reported by the Federal Reserve Bank of New York to the members of the executive committee were approved, ratified, and confirmed.

Chairman Eccles stated that Mr. Sproul had suggested that a meeting of the executive committee be held for the purpose of considering some of the questions with respect to Treasury financing and System credit policies that would have to be taken up with the Treasury in accordance with the decision reached at the meeting of the Federal Open Market Committee on October 17, 1945. He said that this meeting had been called for that purpose and particularly to consider what could or should be done to avoid a further increase in the prices of the longer-term Government securities.

There were then read memoranda prepared by Mr. Goldenweiser under date of December 3, 1945, and by Mr. Sproul under date of December 4, 1945, dealing with Treasury financing and System credit policies in the post-war period. Copies of the memoranda have been placed in the Federal Open Market Committee files of the System.

There was general discussion of the problems presented by the memoranda during which it was pointed out that the program proposed by Mr. Goldenweiser would involve the approval by Congress of comprehensive

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legislation. In this connection, Mr. Sproul suggested that a copy of Mr. Goldenweiser's memorandum be sent to the Presidents of all the Federal Reserve Banks with the statement that at the next meeting of the Federal Open Market Committee and the Presidents, conclusions should be reached as to what the System policies should be and what recommendations should be made to the Treasury.

Reference was then made to the recommendation contained in Mr. Sproul's memorandum that the Committee strongly recommend to the Treasury that, as promptly as possible, and before trading begins on December 10, 1945, in the securities now being sold, the Treasury give an indication to the market that offerings of $2\frac{1}{2}$ per cent bonds to non-bank investors will be continued when the Treasury's cash position requires the raising of new money or when refunding maturing or called issues of Government securities.

Chairman Eccles questioned whether such a recommendation should be made to the Treasury at this time or until the Committee was in a position to suggest the post-war program that should be carried out. This matter was discussed at considerable length, during which the meeting recessed for lunch and reconvened at 2:30 p.m.

At the conclusion of the discussion Mr. McKee suggested that a memorandum be prepared outlining what the situation might be with respect to yields on longer-term securities if nothing were done by the Treasury to prevent further declines, and the steps that might be taken to meet the situation.

This suggestion was agreed to unanimously with the understanding that, if it were decided

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by the members of the committee following this meeting to send a memorandum to the Treasury, Chairman Eccles would be at liberty, if he so desired, to submit a supplementary memorandum expressing any dissenting views that he might have. It was also understood that Messrs. Goldenweiser, Thomas, Rouse, and Piser would prepare a draft of the proposed statement.

There was unanimous agreement that there was little likelihood of additional large purchases of Government securities for the System account for the purpose of supplying funds to the market before another meeting of the executive committee, but that inasmuch as purchases of special short-term certificates from the Treasury over the next few days might exceed \$500,000,000 the limitation in paragraph (2) of the existing direction to the New York Bank should be increased. In this connection, it was stated that the peak of such purchases would be between \$500,000,000 and \$750,000,000.

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 practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or of maintaining an adequate supply of funds in the market; provided (a) that the total amount of securities in the account at the close of this date shall not be increased or decreased by more than \$500,000,000 /exclusive of 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 special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction/, and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the direction of the Federal Open Market Committee issued under date of March 1, 1945, or the redemption of such bills;

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(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; and

(3) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other purchases, sales or exchanges for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

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

At this point Chairman Eccles left the meeting to attend to another matter requiring immediate attention.

Reference was then made to the questions with respect to brokers and dealers in Government securities on which action had been deferred at recent meetings of the executive committee and concerning which it was agreed, at the last meeting of the committee, that at the next succeeding meeting sufficient time would be given to these matters so that it would not be necessary to continue them on the agenda. A memorandum, prepared by Mr. Fiser under date of October 15, 1945, and discussing the points on which a decision had not been made, was read, and it was decided that, inasmuch as Chairman Eccles could not be present to participate in a discussion of the questions, they should be continued on the agenda as the first item of business for the next meeting of the executive committee.

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Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. H. ...
Chairman.