

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, June 30, 1947, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak (Alternate for Mr. Draper)
Mr. Clayton (Alternate for Mr. Vardaman)
Mr. Gidney (Alternate for Mr. Davis)

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 Chairman of the Board of Governors
Messrs. Misgrave, Chief, and Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee on June 5-6, 1947, were approved.

On June 11, 1947, Mr. J. E. Wells, Deputy Governor of the Farm Credit Administration, called Mr. Rouse on the telephone and stated that the Federal Land Bank of St. Paul had \$76 million of Government capital and surplus which it wished to retire by June 30, 1947, and that to carry out this operation the bank desired to raise approximately \$20 million by selling Federal Land Bank bonds to a Federal Reserve Bank at a rate of not to exceed one per cent. It appeared that the request

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was made because the Land Bank desired to obtain a lower rate on the transaction than could be obtained in the market and that the funds could be borrowed readily from commercial banks at 1-1/2 per cent and probably lower. In this connection it was noted that the rate desired was the current discount rate for member banks and that advances by the Reserve Banks to others than member banks would be at a higher rate.

While there was some question whether the transaction would be an open market operation, it was felt that it was a matter that should be considered by the members of the executive committee of the Federal Open Market Committee which was done. All of the members felt that the System should not be in a position of competing with commercial banks, and all of the members except Mr. Evans felt that the transaction should not be undertaken because it would be contrary to the existing policy of the Federal Open Market Committee. It was Mr. Evans' view that the matter was not important from a policy standpoint, that what was really involved was not an open market operation but merely a temporary loan which would come within the discounting function of the Federal Reserve Bank, and that, since the one per cent discount rate was available only to member banks, the matter could have been disposed of simply by calling the attention of the Land Bank to the fact that the transaction could not be consummated at less than the 1-1/2 per cent for nonmember bank borrowings. On this point, it was clear that the System had been approached only because of the possibility of a lower rate and that if the transaction was to be at the market rate the bank would not be interested.

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Upon being advised of the position taken by the members of the executive committee, Mr. Rouse called Mr. Wells and told him that the System would not care to purchase the bonds because it did not wish to compete with commercial banks in a situation where funds were readily available at reasonable rates and because it did not want to put money into the market at a time when it was the policy to withdraw it.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee of the Federal Open Market Committee in the above matter was approved, ratified, and confirmed.

Mr. Rouse submitted (1) a memorandum reviewing the market for United States Government securities for the period June 5 to June 26, 1947, inclusive, (2) a report of open market operations for the period June 5 to June 26, 1947, and (3) a supplementary report of open market operations on June 27, 1947.

In connection with his comment on the important parts of the memorandum and reports, Mr. Rouse said that there was a considerable amount of an upward pressure in the market, that yields had been maintained by the sale of securities from Government accounts, and that it had been found that when these sales were discontinued even for a day prices on Government securities immediately advanced. As a temporary means of meeting this situation, he said, the Treasury had sold almost \$600 million of securities for the account of the postal savings and the Federal Deposit Insurance Corporation.

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Chairman Eccles stated that he had asked Under Secretary of the Treasury Wiggins why the Treasury continued to sell securities for the trust accounts and that his response was that it was for the purpose temporarily of preventing prices of Government securities from going higher pending a decision on what other action should be taken.

Mr. Rouse stated that he understood from conversations with Treasury representatives that the Treasury was prepared to make sales for this purpose from trust accounts of as much as \$2 billion of securities, that authorizations for sales given to the Federal Reserve Bank of New York were in amounts of \$100 million at a time, and that it was not until the end of May that he learned in confidence that there was a possibility of the Treasury being willing to sell securities in such substantial amounts.

Chairman Eccles stated that arrangements had been made for him and Mr. Sproul to meet with Secretary of the Treasury Snyder, Under Secretary Wiggins, and Fiscal Assistant Secretary Bartelt at 2:30 this afternoon and that it would be his suggestion that at that time reference be made to the letter sent to the Treasury under date of June 6, 1947, and that the statement be made that the Federal Open Market Committee had always followed a policy of keeping the Treasury advised of the policies and operations carried out by the Committee, that the Committee had not been kept informed of the policy of the Treasury with respect to the sale of securities from Government accounts, and that it was felt that in the interest of full cooperation that should be done.

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All of the members present were in agreement with this suggestion and with the opinion that the Treasury should readily see and concur in the desirability of that procedure.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account as reported to the members of the executive committee for the period from June 5 to June 29, 1947, inclusive, were approved, ratified, and confirmed.

During the course of the meeting there were distributed to those present copies of a memorandum prepared by Mr. Musgrave under date of June 30, 1947, with respect to the cash position of the Treasury during the fiscal year 1948. Chairman Eccles also read a memorandum addressed to him under date of June 27, 1947, by Messrs. Thomas and Musgrave setting forth reasons for a program which would include (1) action to eliminate the posted rate and repurchase option on Treasury bills and permit an upward adjustment in the bill rate to its normal level in relation to the certificate rate, (2) the issuance of a restricted G-type bond, (3) some increase in the certificate rate and consolidation of the 11 outstanding certificate issues as they mature into 4 to 6 maturities, and (4) the refunding of maturing notes and bonds which were not paid in cash into certificates which would carry a higher rate than outstanding certificates.

In a discussion of the two memoranda, there was complete agreement that there would be no point in eliminating the buying rate and repurchase option on Treasury bills if the understanding remained that

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these issues would continue to be sold at the $3/8$ per cent rate. In this connection, Chairman Eccles stated that in a recent conversation he advised Under Secretary of the Treasury Wiggins that the elimination of the posted rate on Treasury bills was long overdue, that the rate was a wartime measure that had long since ceased to serve the purpose for which it was established, that the elimination of the rate was a matter for decision by the Federal Open Market Committee and did not require the assumption of any responsibility by the Treasury, and that, regardless of what was done with respect to the short-term rate, action to discontinue the posted rate on bills should be taken immediately. He also said that the question whether there should be a change in the rate on certificates or whether the long-term rate should be permitted to decline was a responsibility of the Treasury on which the Federal Open Market Committee could only advise but that the Treasury representatives realized that they would have to make a decision on these matters before the refunding of notes and bonds maturing in September and October was undertaken and that there was some feeling on their part that they should reach a decision on the buying rate on bills, the certificate rate, and the refunding program at the same time.

There was a discussion of the questions involved in a program designed to increase the short-term rate in order to relieve the pressure on long-term issues and how and to what extent the short-term rate should be raised to accomplish this objective. During this discussion, Mr. Sproul read a draft of a memorandum prepared by him before this meeting in which

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he expressed his views on the elimination of the buying rate on Treasury bills and the rate on certificates and refunding problems of the Treasury. A copy of this memorandum has been placed in the files of the Federal Open Market Committee.

At the conclusion of the discussion, it was agreed unanimously that a memorandum should be prepared and presented by Messrs. Eccles and Sproul at the meeting with the representatives of the Treasury this afternoon expressing the views of the executive committee with respect to (1) the elimination of the posted rate on Treasury bills, (2) the short-term rate and refunding problem of the Treasury, and (3) the issuance of a G-type bond.

Secretary's note: It was not possible to complete this statement in the time available before the meeting at the Treasury. Therefore, Messrs. Eccles and Sproul told the Treasury representatives what the views of the executive committee were on these three points and stated that a memorandum summarizing these views would be sent to the Treasury promptly. The memorandum was delivered by Chairman Eccles to the Secretary of the Treasury following a meeting of the National Advisory Council at the Treasury on July 1, 1947, and read as follows:

"In the program submitted to the Treasury on the 18th of April, three steps were suggested with respect to revision in the present policy relating to Treasury bills. The first two steps, imposing an interest charge on Federal Reserve notes and providing for the direct exchange of maturing bills, have since been carried out. No action has been taken with respect to the third step in the program--discontinuing the fixed buying rate and repurchase option on new Treasury bills and permitting the bill rate to find its market level relative to the certificate rate.

"This third step is primarily the responsibility of the Federal Open Market Committee and the Committee is prepared to take such action immediately. The buying rate and option agreement were established to facilitate bank participation in war financing and are no longer necessary or desirable. On the contrary, their elimination will serve a useful purpose in restoring the bill as a market instrument and giving added flexibility to the Treasury's debt-management

program. This action does not necessarily lead to an increase in the certificate but it does prepare the way for such an increase at the proper time.

"That time seems to us to be near at hand, since present estimates of Treasury receipts, expenditures, and changes in nonmarketable debt indicate that funds will not be available to retire maturing issues during the next six months. Accordingly, these securities will have to be refunded through offers of new issues. With continuation of the existing level of security prices and the established pattern of rates, it will be difficult to devise a refunding program that will not result in further downward pressure on the rate structure and additional credit expansion.

"If maturing issues are refunded into 7/8 per cent certificates, bank shifting into longer issues will be accentuated. If refunding is into intermediate-term issues with coupon rates fitting the rate pattern of 7/8 to 2 1/2 per cent established for war financing, the new issues will immediately sell at an excessive premium, because market yields have fallen below the previously established pattern of coupon rates. If, on the other hand, the terms of the new issues are set to fit the present market yields, a new pattern of rates below that in line with the agreed long-term rate of 2 1/2 per cent will be given official sanction. This would be directly contrary to the established policy which we have jointly pursued during the past year.

"In order to avoid this dilemma, it seems to us necessary to reach a decision on the rate question before determining the September financing. It is proposed for consideration that part of the issues maturing in September and October be refunded into a somewhat higher yield certificate. In so doing, a beginning should be made toward consolidation of the 11 certificate issues now outstanding into 4 to 6 maturities. This spacing process would permit raising the certificate rate gradually while minimizing the effect of the rising rate upon prices of outstanding certificates. We shall be glad to discuss with you the details of this proposal.

"As part of an integrated program we also believe that prompt action should be taken to offer a restricted G type bond along the line suggested in recent communications of the Open Market Committee. Such an issue would relieve the downward pressure on the long-term yield to the extent that it arises from demands by nonbank investors. It would also supply additional funds with which to meet maturities of bank-held issues in September and October."

There was a discussion of the action
to be taken in the event no objection was

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expressed at the meeting with representatives of the Treasury this afternoon to the elimination of the posted rate and repurchase option on Treasury bills, and, upon motion duly made and seconded, it was voted unanimously that, in that event, a recommendation would be made by the executive committee to the full Committee that in order to discontinue the posted rate and repurchase option on future issues of Treasury bills the members of the full Committee approve the following direction to the Federal Reserve Banks which would supersede the direction issued by the Federal Open Market Committee on April 24, 1947, it being understood that an appropriate statement would be made to the press in a form satisfactory to Messrs. Eccles and Sproul:

"Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills issued prior to July 10, 1947, that may be offered to such Banks on a discount basis at the rate of $3/8$ per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller on or before the last business day preceding the closing day on which the Treasury will accept tenders of the bills for new Treasury bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account."

In taking the above action, it was understood that the Federal Reserve Bank of New York would follow substantially the procedure set forth below in the period of adjustment of the bill rate to the certificate rate:

In the transition period, Federal Reserve policy will be adjusted to "follow" the market, so as not to accentuate upward pressure on the bill rate that may develop in the market. Initially, the average market rate on bills would be expected to move upward to at least $5/8$ per cent, upon the withdrawal of the $3/8$ per cent buying rate and repurchase option by the

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Federal Reserve Banks. The first bids entered by the Federal Reserve Bank, to replace maturing holdings, will be made, therefore, on a sliding scale of prices ranging (for 91-day bills) from \$99.905 (nearest price to $3/8$ per cent rate of discount) to \$99.842 (nearest price to $5/8$ per cent rate of discount). The average rate on the bids entered will be considerably below the average rate at which the market would be expected to bid for bills. The Federal Reserve Bank will raise the bid rates nearer to the market, in succeeding weeks, and after the market rate on Treasury bills becomes better established, the average of the range of bids entered by the Reserve Bank will normally be fixed close to the average rate at which bills are expected to be awarded to the market.

In order to assure, for the present, that each week's offering of bills will be taken, the Federal Reserve Bank of New York will satisfy itself that dealers are tendering for bills in an amount sufficient to cover the balance of the Treasury offering after replacement of holdings of the Federal Reserve Banks. These dealer bids will be at a rate (say $3/4$ of 1 per cent) which will be above that at which the market is expected to replace its maturing bills but below the rate ($7/8$ of 1 per cent) on one-year Treasury certificates of indebtedness. This will enable the market to obtain a maximum amount of bills, at what might be considered reasonable rates, and at the same time assure the Treasury that no part of the issue will have to be sold at a rate above that of the dealers' cash tender for resale, if necessary, to the Federal Reserve Bank. Rates at which the Reserve Bank will purchase bills will be so determined as not to disturb the present coupon rate of $7/8$ per cent on new offerings of one-year certificates.

At this point Messrs. Musgrave and Smith withdrew from the meeting and Messrs. Knapp, Assistant Director of the Division of Research and Statistics of the Board of Governors, and Mr. Knoke, Vice President of the Federal Reserve Bank of New York, came into the room.

Before this meeting there had been sent to each of the members of the executive committee present a copy of a memorandum dated June 26, 1947, from Mr. Knapp to Chairman Eccles on the subject of security operations in this market by the International Bank for Reconstruction

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and Development. The memorandum recommended, for the reasons outlined, that the National Advisory Council be requested (a) to instruct the United States Executive Director of the Bank that he should approve purchases or sales of marketable Government securities by the International Bank only on condition that such operations had been approved by the Federal Open Market Committee prior to their execution, and (b) to approve on behalf of the United States the International Bank engaging in the purchase and sale of its own direct or guaranteed obligations in this market on condition that the Bank keep the Federal Open Market Committee fully and currently informed concerning the Bank's stabilization program and its operations thereunder.

Mr. Morrill inquired what was intended by the requirement that operations in Government securities be approved by the Federal Open Market Committee prior to their execution and it was explained that it was contemplated that the Committee would be informed through the Federal Reserve Bank of New York as agent for the Committee, that approval for the transactions would be given by the Reserve Bank as the Committee's agent if their execution would be consistent with the open market policy of the Committee, and that the Reserve Bank would also be informed as to the plan for and currently advised concerning the stabilization operations of the Bank in its own securities.

Following a discussion, all of the members of the committee were in substantial agreement with the two recommendations and upon motion duly made and seconded, it was agreed unanimously that drafts should be prepared of the necessary documents to

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carry the recommendations into effect and that the documents would be sent to the National Advisory Council when they were in a form satisfactory to Messrs. Eccles and Sproul.

In taking this action it was understood that the Federal Reserve Bank of New York would keep the members of the executive committee and the Secretary of the Federal Open Market Committee informed, through the weekly reports and oftener and in such manner as circumstances required, of the programs and operations of the International Bank in this market so that whenever it was desirable for the executive committee or the full Committee to act prior to the execution of transactions by the International Bank such action could be taken.

Secretary's note: The letter sent in accordance with the above action to the Secretary of the Treasury on July 3, 1947, with respect to transactions in the obligations of the International Bank was as follows:

"In a letter addressed to you by Mr. Garner on June 24, 1947, the International Bank requested that the Government of the United States grant its approval of the buying and selling from time to time by the Bank of any bonds or other obligations which it shall issue pursuant to the approval confirmed to the Bank in your letter of June 23, 1947.

"This matter was considered at a meeting held on June 30 by the Executive Committee of the Federal Open Market Committee. On behalf of the Committee I desire to request that the National Advisory Council, in approving the International Bank's purchase and resale in the United States market from time to time of its own direct or guaranteed obligations, require that the Bank inform the Federal Reserve Bank of New York, as agent for the Federal Open Market Committee, concerning its stabilization program and keep it currently advised as to its operations thereunder. We do not believe that this stipulation would impose any undue burden upon the International Bank, and it would assure the provision to the Federal Open Market Committee of information essential for the proper discharge of its responsibilities. I have asked Mr. Knapp to introduce in the National Advisory Council Staff Committee a paper in support of this recommendation.

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"The Executive Committee also gave consideration to the question of how the Bank's operations in this market in U. S. Government securities could best be coordinated with domestic monetary and credit policy. I shall communicate with you separately on this subject."

Following this meeting, during informal conversations with representatives of the International Bank, the suggestion was made that it would accomplish the objectives of the Federal Open Market Committee and would be more acceptable to the International Bank if the communication with respect to transactions by the International Bank in United States Government securities were in the form of a letter from the President of the Bank to the Chairman of the Federal Open Market Committee stating that the Bank would keep the Federal Reserve Bank of New York, as agent for the Federal Open Market Committee, currently informed of market operations by the Bank in United States Government securities. The letter approved by Messrs. Eccles and Sproul and sent by the President of the International Bank to Chairman Eccles under date of July 23, 1947, was as follows:

"In accordance with our recent conversation, this is to confirm that the International Bank will from time to time consult with the duly designated representatives of the Federal Reserve Bank of New York, as agent for the Federal Open Market Committee, in order to assure that purchases and sales of United States Government securities for investment by the International Bank in the United States shall not interfere with the monetary and credit policies of the United States. To that end, the International Bank will also keep the Federal Reserve Bank of New York currently informed of such market operations by the International Bank in the markets of the United States."

On July 25, 1947, Chairman Eccles sent the following acknowledgment to the President of the International Bank for Reconstruction and Development:

"On behalf of the Federal Open Market Committee, I should like to acknowledge receipt of your letter of July 23, 1947 confirming the willingness of the International Bank to enter into the arrangements which we suggested with the view to assuring that the Bank's operations in our Government security market should not interfere with the monetary and credit policies of the United States. We greatly appreciate your ready cooperation in this matter, and I am sure that any problems which may arise in carrying out these arrangements will be

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"approached with mutual understanding and solved to our mutual satisfaction.

"I am sending copies of this correspondence to Secretary Snyder in his capacity as Chairman of the National Advisory Council."

The letter transmitting copies of this correspondence to Secretary Snyder in his capacity as Chairman of the National Advisory Council under date of July 25, 1947, read as follows:

"In my letter of July 3, I informed you that the Executive Committee of the Federal Open Market Committee had been considering how the International Bank's operations in this market in United States Government securities could best be coordinated with domestic monetary and credit policy. Subsequently, officers of the Bank indicated in discussions with us that they were most willing to arrange for consultations to assure the necessary coordination. I am enclosing herewith a letter that I have received from Mr. McCloy confirming that such consultation will take place, together with my reply. The final sentence of the letter assures also that full information about the Bank's operations in United States Government securities will be supplied currently to the Federal Reserve Bank of New York, which will continue to keep both the Open Market Committee and the Treasury Department fully informed through its daily reports."

Reference was made to the direction to be issued to the Federal Reserve Bank of New York to execute transactions for the System account in the interim before another meeting of the executive committee and Mr. Rouse suggested that, if action were taken to eliminate the buying rate on Treasury bills, it would be desirable for the Bank to have authority to increase or decrease the total amount of securities in the account by \$1 billion.

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 an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury issuing rates of $7/8$ per cent for one-year certificates and $2-1/2$ per cent for 27-year bonds restricted as to ownership; 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 \$1,000,000,000 exclusive of maturing bills transferred to the System account from the option accounts of the Federal Reserve Banks pursuant to the direction issued by the Federal Open Market Committee on May 5, 1947, bills purchased outright in the market on a discount basis at the rate of $3/8$ per cent per annum, bills redeemed or exchanged at maturity, bills taken in exchange for maturing bills, 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 directions of the Federal Open Market Committee issued under dates of March 1, 1945, and April 24, 1947, or the redemption of such bills;

(2) To purchase direct from the Treasury for the System open market account such amounts of special short-term certificates of indebtedness as maybe 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 limitation contained in the direction included commitments for purchases and sales of securities for the System account.

Chairman Eccles stated that the date for the next meeting of the executive committee would depend somewhat on developments but that it

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would be desirable to hold a meeting not later than the week of August 4.
It was the consensus of the members present that the meeting should be
subject to call by the Chairman sometime between August 4 and 8, 1947.

Thereupon the meeting adjourned.

Peter Morrie
Secretary.

Approved:

W. S. ...
Chairman.