

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 Tuesday, December 9, 1947, at 9:00 a.m.

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

Mr. Szymczak, member of Federal Open Market Committee

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Thomas, Economist  
Mr. Rouse, Manager of the System Open Market Account  
Mr. Smead, Director of the Division of Bank Operations, Board of Governors  
Mr. 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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee on October 6-7 and 14, 1947, were approved.

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 October 5 to December 8, 1947, inclusive, were approved, ratified, and confirmed.

12/9/47

-2-

Mr. Rouse stated that, in accordance with the action taken at the last meeting of the Federal Open Market Committee, he and Mr. Smead had given consideration to desirable changes in the procedure approved by the full Committee for allocation of securities in the System open market account and, while there had not been time to make a detailed report and revision of the allocation statement, the following recommendation was being submitted with the thought that, if approved, it would simplify the procedure considerably and would make it more understandable to those who have to deal with it only occasionally. He also said that there were certain details in connection with the proposed changes which would have to be worked out and that it was suggested that if the recommendation were approved by the executive committee and by the full Committee it be with the understanding that (1) the complete details would be worked out and the changed procedure would be put into effect on January 1, 1948, and (2) a full written statement of the procedure would be submitted at the next meeting of the Federal Open Market Committee and the executive committee for ratification:

1. That interest bearing securities in the Account be allocated at the first of the year on the basis of the expense and dividend ratio of each Bank as against all the Banks; that this allocation be the only one for the year; and that the same basis of allocation continue in use. However, profits and losses on

12/9/47

-3-

interest bearing securities would continue to be allocated on the basis of the average holding ratio for the preceding five years.

2. Holdings of Treasury bills would likewise be allocated on the expense and dividend ratios to the extent that the several Reserve Banks were able to acquire such securities within the limits of maintaining the reserve ratio of 35 per cent or such other percentage as the Committee may determine. Profit and loss on Treasury bills would be allocated on the basis of the current Treasury bill holding ratio of each Bank as of the day profit or loss is realized.

There was a discussion of how the proposed procedure would differ from the one now in effect and at the conclusion of the discussion, upon motion duly made and seconded, it was agreed unanimously to (1) propose to the full Committee that the recommendation submitted by Messrs. Rouse and Smead be adopted with the understanding stated above, and (2) recommend to the full Committee that the executive committee be authorized, should circumstances develop between meetings of the Federal Open Market Committee requiring some adjustment in the allocation procedure, to take such action as appeared to be desirable pending the next meeting of the Committee.

Reference was then made to the discussion at the last meeting of the Federal Open Market Committee of the suggestion made by Mr. Rouse in his memorandum of September 30, 1947, to Mr. Sproul that the authority given by the Federal Open Market Committee to the Federal Reserve Banks to make temporary purchases of Government securities under resale agreements for periods of not to exceed 15 days be restored.

12/9/47

-4-

In a discussion of the reasons why such authority would be desirable at this time, Mr. Sproul stated that there were times in the market when the rates at which dealers were able to borrow were higher than the rates on the securities held by them with the result that they were unwilling to carry the securities. He added that there were also situations in which the dealers needed immediate funds and that when securities were sold they were not delivered and the proceeds of the sale were not available until the following day. It was Mr. Sproul's view that in such situations and during the period of a tighter money market, such as existed at the present time when commercial banks in New York, Chicago, San Francisco, and possibly other Federal Reserve cities would not be in a position to lend funds over night, it would be of assistance in managing the Government security market if the Federal Reserve Banks were authorized to make loans to the dealers to meet the situation. If this were not done, he said, the dealers would sell the securities outright to the Federal Reserve Banks after which there would be less chance of their being sold elsewhere in the market. He felt that the authority would constitute a minor instrument which at times would enable the Federal Reserve Banks to facilitate the ready movement of Government securities in and out of dealers' hands without the necessity of their being sold to the Federal Reserve Banks.

12/9/47

-5-

Chairman Eccles questioned the need for the authority, stating that the money market was tight only if the commercial banks chose to make it tight and that they could readily sell short-term securities to the Federal Reserve Banks and accommodate the dealers' needs.

There was a general discussion of the need for the authority, during which Messrs. Sproul and Rouse, in response to an inquiry from Mr. Szymczak, stated that during the past month or two the need had become more urgent with the increased inability or unwillingness of the banks to lend at rates at which the dealers could borrow and that the need was a continuing one.

Chairman Eccles suggested that a memorandum be prepared which would state fully the reasons that might be advanced for and against action by the Federal Open Market Committee granting the authority, that the memorandum be sent to all members of the Federal Open Market Committee before the next meeting of the executive committee, and that the recommendation be made at the meeting of the full Committee that the executive committee be authorized to grant the authority if after consideration of the reasons for and against such action the committee felt at its next meeting that the authority should be granted. If this suggestion were followed, Chairman Eccles said, one point that should have special consideration by the executive committee would be whether the resale agreements should be for

12/9/47

-6-

longer than five days, as it was thought likely that the purposes sought to be accomplished by the action could be adequately served under such a limitation.

Upon motion duly made and seconded,  
and by unanimous vote, Chairman Eccles'  
suggestion was approved.

Chairman Eccles then raised for discussion the question whether, in view of the statements which he and Mr. Sproul had made before committees of Congress with respect to steps that might be taken to combat the existing inflationary situation, there was any need for a special report to Congress of the kind suggested at the last meeting of the Federal Open Market Committee and the executive committee with respect to the monetary and credit problems with which the Committee had to deal. It was his thought, however, that consideration might be given to including a section in the Board's annual report which would serve the same purpose.

In this connection the suggestion was made that the statement which Messrs. Thomas and Roelse, Vice President of the Federal Reserve Bank of New York, had been requested to prepare might be completed and submitted to the members of the full Committee sometime before the next meeting of the Committee so that if it should be decided to include such a statement in the Board's annual report

12/9/47

-7-

the statement could be approved by the Committee at that time.

Upon motion duly made and seconded,  
and by unanimous vote, this suggestion  
was approved.

Thereupon the meeting recessed to reconvene following the  
meeting of the full Committee.

Oreste Moriel  
Secretary.

Approved:

W. C. C. C.  
Chairman.

The meeting of the executive committee of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, December 9, 1947, at 3:20 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Draper  
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

There was a brief discussion of the direction that should be given to the Federal Reserve Bank of New York with respect to operations in the open market account, and unanimous agreement was expressed with the view that there was no need for a change in the existing authority at this time.

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct 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 light of the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market more closely to the

12/9/47

-2-

needs of commerce and business; provided 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 special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction;

(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.

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.

Thereupon the meeting adjourned.

Chester Morie  
Secretary.

Approved:

W. B. Keeler  
Chairman.