

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, June 14, 1950, at 11:15 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Evans
Mr. Young

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Rouse, Manager, 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
Mr. Ralph A. 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
Mr. Wurts, Assistant Vice President of the Federal Reserve Bank of New York

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee, held on May 3, 1950, were approved.

Upon motion duly made and seconded, and by unanimous vote, the following letter sent to the Secretary of the Treasury on May 25, 1950, with the approval of individual members of the executive committee, was approved and its sending was confirmed and ratified:

6/14/50

-2-

"At its meeting last week with the Board, the Federal Advisory Council discussed the economic outlook and related questions of monetary and credit policies. Following this discussion, the Council made a specific recommendation with respect to Treasury financing in a letter, a copy of which is enclosed for your information.

"With respect to the economic outlook, all members of the Council reported that prospects for the next six months in their districts are for a continuing high level of business activity and employment. Other information available to the Board generally supports the Council's expectations as to near-term economic trends. Continued expansion in building activity and in consumer purchases of durable goods, resurgence in demand for capital goods and in inventory accumulation, rising prices for commodities and stocks, all suggest the danger of a type of development which in the past has proved unhealthy. These conditions are being accompanied by expansion of credit by banks and other lenders to consumers, real estate owners, and buyers of securities. Other credit demands are also strong.

"In the light of these prospects, the Council suggested that a substantial portion of the funds needed by the Treasury for refunding and deficit financing should be obtained through the issuance of intermediate and longer-term securities. The Council also indicated its view that market conditions are now favorable for taking steps in this direction. As stated in the enclosed letter, while continuing to be of the opinion that a long-term 2-1/2 per cent ineligible bond would be desirable at a later date, the Council favors an offering at this time or in the near future of a 15-year, 2-1/2 per cent nonmarketable security with redeemable features, to be made available on a tap basis.

"You will recall that in our recent conference with you, we stated that the executive committee of the Federal Open Market Committee also held the view that an offering to nonbank investors should be made at an early date and that a majority of that committee favored offering a nonmarketable issue, while one member preferred a marketable restricted bond. Those favoring a nonmarketable tap issue believe that such an offering would contribute most effectively to the objective of financing the Government deficit with a minimum of inflationary impact. A continued offering of investment securities to nonbank investors might not produce very large sales in a short period of

6/14/50

-3-

"time, but through regular and moderate sales should bring in a large amount over an extended period. Sales on this basis would avoid the risk of market difficulties from a single large offering of marketable securities.

"That there is a strong current demand for securities by nonbank investors is indicated by the substantial sales of bonds made from the Reserve System's portfolio since the first of this year. This demand has occurred during a period of heavy tax payments. Funds available in the economy during the period ahead should be fully as large and we believe it would be desirable for the Treasury to tap these funds as they become available and before they go into other outlets.

"We should be glad to discuss this proposal with you at any time."

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 May 3 to June 12, 1950, inclusive, were approved, ratified, and confirmed.

Reference was made to the general direction to be issued to the Federal Reserve Bank of New York to effect transactions in the System account and it was suggested that there be added to the second paragraph of the direction a sentence similar to that added to the general direction issued by the full Committee to the executive committee at its meeting earlier today to provide that the authority contained in the second paragraph of the direction would terminate on June 30, 1950, unless the authority of the Federal Reserve Banks to purchase securities directly from the Treasury was extended by the Congress. It was also suggested that the limitations contained in the existing direction be renewed.

6/14/50

-4-

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 changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the 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 billion 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 million. The direction in this paragraph will terminate on June 30, 1950, unless the authority of the Federal Reserve Banks to purchase securities directly from the Treasury is extended by the Congress.

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

It was agreed that the existing understanding with respect to replacement of maturing Treasury bills held in the System account should continue unchanged.

6/14/50

-5-

During a discussion of the ranges at which purchases and sales of bills and certificates for the System account might be made, Mr. Rouse suggested that in view of the understanding agreed upon at the meeting of the Federal Open Market Committee this morning, the ranges of 1.12-1.19 per cent on bills and 1.12-1.24 per cent on certificates authorized at the meeting of the executive committee on May 3, 1950, be changed to a range of 1.12-1.24 per cent for both bills and certificates until July 1, 1950, and of 1.12-1.36 per cent thereafter.

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York, operating under the general direction issued earlier during this meeting, was authorized to purchase and sell Treasury bills and certificates within a range of 1.12-1.24 per cent until July 1, 1950, and within a range of 1.12-1.36 per cent after that date.

It was also suggested that, operating under the general direction issued by the executive committee, the Federal Reserve Bank of New York be authorized to continue to sell long-term securities from the System account unless and until there was a change in the business and credit situation, or the Treasury issues new securities to finance the deficit which would make it undesirable to pursue the policy further. This action would be taken with the understanding that should the price on the longest restricted issue decline to 100-3/4 another meeting of the executive committee would be called to consider what further instructions should be issued to the Federal Reserve Bank of New York

6/14/50

-6-

in accordance with the action taken at the meeting of the full Committee immediately preceding this meeting.

This suggestion was approved unanimously.

Mr. Rouse inquired when the Treasury would be informed of the new policy adopted by the Federal Open Market Committee. Chairman McCabe stated that he had talked with Secretary Snyder by telephone this morning and that he and Mr. Sproul had an appointment to meet with the Secretary at 4:30 this afternoon at which time he would be informed of the actions of the full Committee and its recommendation with respect to the offering of a long-term non-marketable tap issue.

It was agreed that the next meeting of the executive committee should be subject to call by the Chairman.

Thereupon the meeting adjourned.

Chester Novick
Secretary.

Thomas P. Leitch
Chairman.