

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 Friday, August 18, 1950, at 4:20 p.m.

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

Messrs. Davis, Draper, Erickson, Peyton,
Szymczak, and Vardaman, members
of the Federal Open Market Committee

Mr. Morrill, Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. John H. Williams, Associate Economist
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,
Board of Governors
Mr. Kenyon, Assistant Secretary,
Board of Governors
Mr. Ralph A. Young, Director, Division
of Research and Statistics, Board of
Governors
Mr. Wurts, Assistant Vice President,
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
held on July 10 and July 21, 1950, were
approved.

Upon motion duly made and seconded
and by unanimous vote, the transactions
in the System open market account as re-
ported to the members of the executive

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committee for the period July 8 to August 17, 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 the language of the direction be so worded as to conform to the general direction issued by the full Committee to the executive committee at its meeting earlier today. It was also suggested that the limitations contained in the existing direction be renewed.

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 current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; 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

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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.

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

It was suggested that in view of the policy agreed upon at the meeting of the Federal Open Market Committee earlier today that short-term rates should be allowed to increase, the range of 1.12-1.24 per cent on bills and certificates authorized at the meeting of the executive committee on July 10, 1950, be changed to a range of 1.16-1.36 per cent for bills and 1.20-1.36 per cent for certificates.

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 within a range of 1.16-1.36 per cent and Treasury certificates and notes maturing within 12 months within a range of 1.20-1.36 per cent, it being understood that the yield on Treasury securities on a one-year basis would be allowed to adjust to a level of $1\frac{3}{8}$ per cent as rapidly as market conditions indicated.

It was also agreed that there should be no change at this time in the existing understanding that replacement of maturing Treasury bills held in the System account should be effected in the light of current conditions in the money market and the general credit

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policy adopted by the Federal Open Market Committee at its meeting earlier today.

With respect to transactions in long-term securities, it was agreed that the System should not be an active seller, but that it should purchase or sell such Government securities with a view to maintaining orderly market conditions and that should the price on the longest restricted issue decline to between 100-1/2 and 100-3/4, the executive committee would direct only such operations as were necessary to maintain orderly market conditions pending a meeting of the Federal Open Market Committee which would be called promptly to consider how far any further decline that would be brought about by market conditions would be permitted to go.

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

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Thomas B. Lu: Calu
Chairman.