

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 Thursday, October 5, 1950, at 5:45 p.m.

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

Messrs. Szymczak, Vardaman, and Norton,  
members of the Federal Open  
Market Committee

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Thomas, Economist  
Mr. Rouse, Manager, System Open Market  
Account  
Mr. Riefler, Assistant to the Chairman,  
Board of Governors  
Mr. Sherman, Assistant Secretary,  
Board of Governors  
Mr. 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. Leach, Economist, Division of Research  
and Statistics, Board of Governors  
Mr. Wurts, Assistant Vice President,  
Federal Reserve Bank of New York

Chairman McCabe stated that pursuant to the understanding at the meeting of the Federal Open Market Committee on September 28, 1950, he and Mr. Sproul met with Secretary of the Treasury Snyder at 4:30 p.m. this afternoon, and that Messrs. Haas, Director of the Technical Staff of the Treasury, and Bartelt, Fiscal Assistant Secretary of the Treasury,

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were also present. Chairman McCabe then made a statement substantially as follows:

I first told Secretary Snyder of a meeting with Mr. Symington, Chairman, National Security Resources Board and Coordinator of the President's program under the Defense Production Act of 1950, earlier this afternoon on mortgage credit and consumer credit controls, and of his ideas relating to these controls. We then discussed the suggestion of the Federal Advisory Council about getting financing institutions to enter into voluntary agreements to restrain credit in conformity with the provision in the Defense Production Act of 1950. The Secretary had discussed this matter with us the week before as his principal suggestion to restrict the inflationary expansion of bank credit. The Secretary then mentioned the meeting that he had had with the people who are engaged in the E Bond Campaign, and the fears which they expressed as to the effects of higher interest rates on the E Bond Campaign. He also told of their concern about the maintenance of the long-term rate and the possibility of some change in the long-term rate that might affect E Bond sales.

Then we referred to the fact that we had met with him a week ago, and that he said he would talk to us in a couple of days. He explained why he had not talked with us before. We explained very objectively why we felt the Federal Reserve ought to act on reserve requirements and the short-term rate, stating that it was felt that we should not act on reserve requirements until the short-term rate was increased, and that we were not talking about a drastic change in the short rate but would feel our way up and see what effect the increase had on the long-term restricted bonds. We outlined the significance of an increase in the short rate and why, without this move, an increase in reserve requirements would not be effective.

The Secretary and his assistants discussed the inflationary situation and the possibility of deflationary trends, some of which they said are showing up; they saw some indications that things were piling up, that the inflation had run its course, that there might be some change in the picture. They also felt the regulations on mortgage credit might have some effect. In contrast with a week ago they seemed to be disposed to listen to us on all points without interrupting.

We told the Secretary that the Federal Open Market Committee was unanimous in wanting to move on the short-term rate and

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that the Board was disposed to increase reserve requirements after the short-term rate had risen. We repeated that at the end of our conversation and told him that it would be discussed at the meeting of the executive committee to be held later this afternoon after our conference with him. He took the position that he could not tell us which way to go, but said he would like to defer expressing his opinion until sometime between now and not later than Monday, October 9. He was very emphatic in saying not later than Monday. So we told him the only thing Mr. Sproul and I could do was to report to the executive committee that he would like to express his opinion to us not later than Monday. He made it very clear that he was not making any plea that we defer action. It was my judgment while discussing it in the car coming back that we might defer action until we had a chance to hear what he had to say, as he said he might get in touch with us before Monday.

There followed a brief discussion of Chairman McCabe's report, during which Mr. Sproul stated that he thought the committee was in a position to give an instruction to the Federal Reserve Bank of New York that it should permit the short-term rate to rise in accordance with the discussion at the meeting of the Federal Open Market Committee on September 28, but to wait to put the instruction into effect until Tuesday of next week. Mr. Sproul expressed the view that nothing new would develop from Secretary Snyder's comments next week and that the committee would be in a better position if it had taken the action today and given the instruction even though it did not go into effect until after Monday of next week.

Chairman McCabe stated that he would be inclined to wait until the committee had heard from Secretary Snyder before taking action, that he did not know what the Secretary would say, but that he felt it would be preferable to take no action until after hearing from him.

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Mr. Sproul stated that the full Committee had already taken action, that time was passing, that bank credit had been expanding rapidly, and that he felt that in view of the direction from the full Committee action should be taken today with the request that the Federal Reserve Bank of New York defer putting it into effect until Tuesday of next week, when the executive committee would have had an opportunity to hear from Secretary Snyder. He added that if the information transmitted by Secretary Snyder were such as to make such action desirable, the Committee could then rescind the earlier action or modify it in any way that seemed appropriate.

During a discussion of the two courses proposed by Messrs. McCabe and Sproul, it was evident that the members of the executive committee were equally divided on the question which course should be followed, Messrs. Sproul and Eccles feeling that the action proposed by Mr. Sproul should be taken and Messrs. McCabe and Evans feeling that no action should be taken by the executive committee until the further comments of Secretary Snyder had been received.

At the conclusion of the discussion, Mr. Sproul moved that pursuant to the action taken at the meeting of the Federal Open Market Committee on September 28, 1950, (1) beginning Tuesday, October 10, 1950, the Federal Reserve Bank of New York be instructed to take such action, in accordance with the direction issued at the meeting of the executive committee on September 28, as may be necessary, (a) to allow the market

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yields for Treasury securities on a one-year basis to move up to the highest point not exceeding 1-1/2 per cent which will not result in such pressure on the longest term restricted bonds as would cause continuing purchases in substantial amounts of long-term bonds for the System account, (b) to prevent market prices of the longest term restricted bonds from declining in response to market conditions to below a point between 4/32 and 8/32 above par, and (c) to maintain an orderly market while carrying out the above instructions, and (2) that the above instructions be given with the understanding that if information received from the Secretary of the Treasury before Tuesday morning, October 10, 1950, was such as to warrant reconsideration of the instructions, the members of the executive committee would be advised immediately.

Following a further discussion, Mr. Sproul's motion was put by the Chair and lost on a tie vote, Messrs. Sproul and Eccles voting "aye" and Messrs. McCabe and Evans voting "no".

It was unanimously agreed that as soon as Chairman McCabe heard from Secretary Snyder he would communicate with the other members of the executive committee and that a decision would then be reached as to whether the situation was such as to call for a meeting of the full Committee.

Thereupon the meeting adjourned.

Robert M. Miller  
Secretary.