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, December
27, 1950, at 10:40 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Evans
Mr. Vardaman (alternate for Mr. Eccles)
Mr. Powell, Member, Federal Open Market
Committee

Mr. Carpenter, Assistant Secretary
Mr. Thomas, Economist
Mr. House, Manager, System Open
Market Account
Mr. Vest, General Counsel
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. 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. Leach, Economist, 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 held
on November 17 and 27, 1950, were approved.

Upon motion duly made and seconded,
and by unanimous vote, the action of the
members of the executive committee on
November 29, 1950, authorizing the release
to the Joint Committee on the Economic Report, for publication, of tabulations of data with respect to Treasury refunding and distribution of U. S. Government securities held by the Federal Reserve Banks, as recommended in a memorandum from Mr. Thomas dated November 24, 1950, was approved, ratified, and confirmed.

Mr. Rouse presented and commented on a report of open market operations prepared at the Federal Reserve Bank of New York covering the period from November 24 to December 22, 1950, and on a supplementary report covering commitments executed during the period December 23-26, 1950. Both reports were distributed to the members of the committee, and copies have also been placed in the files of the Federal Open Market Committee.

At this point all of the members of the staff withdrew and the committee went into executive session during which Mr. C. S. Young, member of the executive committee, joined the meeting. The members of the staff were called back into the meeting at 12:40 p.m.

There was then distributed a draft of a study of the Series E savings bond program being prepared by a System staff committee on Government finance in the light of the discussion at the meeting on March 1, 1950, together with a memorandum dated September 15, 1950, on the "Competitive Position of Series E Bonds" prepared in the offices of the Board of Governors. It was stated that the first memorandum had been distributed for comment and that some additional
changes might result from suggestions of the staff. In a discussion of recommendations that might be made to the Treasury with respect to the Treasury savings bond program, Chairman McCabe stated that recently he made the suggestion to the Secretary of the Treasury that it would be helpful if the staffs of the Treasury and the Federal Open Market Committee could work together more closely in the discussion of the problems in which both are interested and that the Secretary responded that he would be glad to have members of his staff confer with the Committee staff to work out the details of any program that had been agreed upon by the Treasury and the Federal Open Market Committee, but that he thought the policy aspects of any program should first be determined at the policy level. Notwithstanding, Chairman McCabe said, he would suggest that when the draft of study of the Series E savings bond program referred to above had been checked, a copy be sent to Secretary Snyder with a letter stating that it had been prepared as a staff study, that it had not been considered by the Federal Open Market Committee, and that it was being furnished so that, if the Secretary desired, it could be read by members of his staff and their comments given to the staff of the Federal Open Market Committee prior to a consideration of the study and a recommendation to the Treasury by the Committee.

It was brought out during the discussion that the Treasury had had a committee working for some time on the problem of changes
to be made in the savings bond program and that it was probable that
the Treasury would make a decision on a program shortly. It was
the consensus that, in these circumstances, any views that the
Federal Open Market Committee may have should be sent to the
Treasury as promptly as possible.

Accordingly, Chairman McCabe's suggestion was approved unanimously
with the understanding that the letter sending the draft of study
to the Secretary of the Treasury
would state that, if the Secretary
desired, members of the Committee
staff would be available to discuss
the matter and the Federal Open
Market Committee would be glad to
make definite recommendations with
respect to the program.

In connection with a discussion of open market operations
during the coming period, Chairman McCabe informed the committee of
the action taken last week by the Board of Governors with respect to
an increase in reserve requirements of member banks, and the instruc-
tions to be issued to the Federal Reserve Bank of New York with
respect to transactions in the System open market account were
discussed in the light of that action. Mr. Sorourl stated that if
reserve requirements were raised there were two possible courses of
action that the Committee might follow. One would be to regard the
increase in reserve requirements as a separate action which would
not be permitted to bring about any change in current money market
rates. The second would permit the increase in reserve requirements
to have the effect of tightening conditions in the money market and therefore would contemplate allowing short-term rates to increase somewhat. This would require consultation with the Treasury. While under different conditions Mr. Sproul would favor the latter action, in existing circumstances including the results of the recent December and January financing, and the present market for the securities then issued, his judgment was that the committee should direct the Federal Reserve Bank of New York to conduct open market operations in such a manner as to hold money market rates at substantially existing levels during the period in which the increase in reserve requirements was being made effective.

The other members of the committee concurred with Mr. Sproul's comment and it was agreed that the existing general direction to the Federal Reserve Bank of New York to execute transactions for the System account would be renewed with that understanding.

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
December 26, 1950, shall not be increased or
decreased by more than $2 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.

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

Mr. Sproul also suggested that no change be made at this time
in the understandings set forth in the minutes of the meetings of the
executive committee on November 17 and 27, 1950, with respect to
(1) ranges within which short-term Treasury securities would be
purchased and sold for the System account, (2) the replacement of
maturing Treasury bills held in the System open market account, and
(3) transactions in long-term Government securities.

This suggestion was approved
unanimously.

It was agreed that, in the absence of special developments,
the next meeting of the Federal Open Market Committee might be deferred
until the end of February, and that the next meeting of the executive committee would be subject to call by the Chairman. Thereupon the meeting adjourned.

[Signature]
Assistant Secretary.