

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 Saturday, March 3, 1951, at 10:40 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Eccles
Mr. Szymczak
Mr. A. H. Williams
Mr. Leedy (Alternate for Mr. Sproul)

Mr. Gilbert, Member, Federal Open Market
Committee
Mr. Norton, Member, Federal Open Market
Committee

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, 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. Young, Director, Division of Research
and Statistics, Board of Governors
Mr. Youngdahl, Chief, Government Finance
Section, Division of Research and Sta-
tistics, Board of Governors
Mr. Leach, Economist, Division of Research
and Statistics, Board of Governors

Chairman McCabe stated that he had received word that Assistant Secretary of the Treasury Martin had not yet been able to talk with Secretary Snyder or to clear the points discussed with him and Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, pursuant to the understanding at the meeting of the Federal Open Market Committee yesterday, but that it was expected that word would be received from him not later than early afternoon.

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The Chairman then stated that this morning he had a long talk with Mr. Wilson, Director of the Office of Defense Mobilization, who expressed great satisfaction concerning the prospect that an agreement would be reached between the Federal Reserve and the Treasury. The Chairman also said that he called Mr. Murphy, Special Counsel to the President, this morning to tell him that unless some question was raised about the points which the Committee had presented to Mr. Martin yesterday, it appeared that an agreement might be reached today. He stated that subsequently Mr. Murphy called back to say that Mr. Keyserling, Chairman of the Council of Economic Advisers, had told him he approved the proposed agreement as it had been presented to him, and that while he (Mr. Murphy) had not been able to talk with Mr. Wilson, Director of the Office of Defense Mobilization, he assumed that he approved. Chairman McCabe then went on to say that Mr. Murphy wanted to know more about what the agreement would mean with respect to the prices of long-term bonds and particularly whether they would drop below par, since he felt this would be of great interest to the President. Chairman McCabe stated that he responded to Mr. Murphy that he did not know what would happen to the long-term bonds, that he could not say whether they would go below par and if so, how much. He said that Mr. Murphy then expressed the view that if the agreement were consummated it would be desirable for the President to issue a short statement indicating that he was pleased with it and that it was a step in the program which he (the President) had outlined at the meeting at the White House

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at 11 a.m. on Monday, February 26. Chairman McCabe said that Mr. Murphy then again asked him what the effects of the agreement would be on the maintenance of Treasury bonds at par or above and that he reiterated that he did not know, that that would depend on various factors, and that he thought that Mr. Murphy should explain to the President the full significance of the agreement, including the possible effects on short-term rates as well as on the long-term rate, because it was important that the President know fully about the agreement so that there would be no possibility of a misunderstanding. At the close of their discussion, he said, Mr. Murphy said that if the President raised any serious objections it might be desirable for someone from the Treasury and Chairman McCabe to fly down to Florida to discuss the matter with the President, but that he did not think any question would be raised if the President understood that the Secretary of the Treasury and the Federal Reserve had reached an agreement. The Chairman stated that he reiterated again as the conversation closed that he did not wish the President to be under any misapprehension as to the terms of the agreement, that there would unquestionably be variations in the short-term rate and that there would be a period of adjustment in the long-term rate, but that both the Treasury and the Federal Reserve felt that as the public came to feel that the Government bond market was not being regulated, there would be greater confidence in it.

Mr. Rouse stated that he talked with Mr. Sproul by telephone this morning and that Mr. Sproul was clear in his own mind that in view of the

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discussion which he participated in with Messrs. Martin and Bartelt yesterday noon, there was no misunderstanding by either Mr. Martin or Mr. Bartelt as to the terms of the agreement that had been proposed. In particular, Mr. Sproul mentioned that he felt there was a clear-cut understanding in the minds of both Mr. Martin and Mr. Bartelt as to the meaning of the maintenance of an orderly market as stated in the fifth point of the understanding set forth in the minutes of the full Committee meeting on March 2.

In a discussion of whether under the agreement the other restricted issues would be permitted to go below par (Messrs. Riefler and Thomas feeling that there should be a discussion with the Treasury before they were permitted to go below par during the conversion), Mr. Rouse said that it would be a question of what constituted an orderly market, that if pressures in the market were very severe these issues might go below par, but that he felt that it might be a mistake to have them go below par in the immediate future. He also expressed the feeling that the operation of the System account during the period through the conversion would have to be "played by ear", that he did not wish to be committed in advance to any particular course of action, since the period would be a very difficult one, but that there would be ample opportunity for discussion between himself and Mr. Sproul and other members of the Open Market Committee and the Treasury. It was agreed that the proposed program contemplated frequent

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discussions with the Treasury so that it could be kept informed of System operations and we could be informed of Treasury decisions with respect to financing. In this connection Mr. Rouse stated that he had asked Mr. Bartelt to have one of the senior members of the Treasury staff come to New York next week to observe the market operations so that he would have a first-hand opportunity to see how the market acted and the part that the System account played in it. He added that he thought that Mr. Bartelt would also be consulting frequently with him in connection with market developments.

Mr. Eccles then raised the question concerning the rapidity with which the market might move away from the present short-term rate, and there was a general discussion of this matter as well as the changes that might take place in longer-term rates over the period of the next several weeks. There was also a discussion of the possible terms of the conversion issue that would be announced by the Treasury in the event of an agreement and of the manner in which it might be accepted by holders of the present 2-1/2 per cent 1967-72 restricted Treasury bonds.

With respect to the latter point, Mr. Thomas stated that the assumption on the part of those in the Treasury who had discussed the agreement had been that the Treasury should be able to do long-term financing in the market at a 2-1/2 per cent rate, that while he had doubts about this it could not be ascertained at this time whether such rates would be possible, and that market developments would determine the rates at which

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future financing could be offered. Messrs. Riefler, Thomas, and Rouse were satisfied that the Treasury representatives understood this point. Mr. Thomas also said that the Treasury representatives had emphasized that any public comment or any interpretation that the conversion issue might not be a success would jeopardize its acceptance, and that a basic part of the agreement was the understanding that it would be carried out in a spirit of enthusiastic cooperation.

In the discussion of the possible maturity of the new nonmarketable issue, Chairman McCabe stated that it was understood that the Treasury would begin immediately to hold consultations on that point and that, therefore, the first announcement would not disclose what the maturity would be on the new issue or the maturity or rate of the note for which the new issue could be exchanged.

Chairman McCabe then referred to the announcement to be made jointly by the Treasury and the Federal Reserve and at his request, the statement was read as follows:

"The Treasury and the Federal Reserve System have reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt."

Mr. Rouse stated that one of the points which the Treasury had mentioned was that while there would be no reference to the January 18 statement of the Secretary of the Treasury in the announcement, it reserved the right to say, if asked, that the announcement was not inconsistent with

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the Secretary's speech in New York on January 18.

Mr. Thomas then read a draft of the proposed announcement to be made by the Treasury of the 2-3/4 per cent conversion offering as follows:

"The Secretary of the Treasury announced today that there will be offered for a limited period a new investment series of long-term nonmarketable Treasury bonds in exchange for outstanding 2-1/2% Treasury bonds of June 15 and December 15, 1967-72, the details of which will be announced on March 19.

"The new bonds will be issued in registered form only with appropriate maturity, and will bear interest at the rate of 2-3/4% per annum payable semi-annually. They will not be transferable or redeemable prior to maturity; however, owners of such nonmarketable bonds will be given an option of exchanging them prior to maturity for marketable Treasury notes bearing terms to be announced in the official offering.

"The new nonmarketable 2-3/4% Treasury bonds will be acceptable at par and accrued interest in payment of Federal estate and inheritance taxes due following the death of the owner. They will not be acceptable in payment of Federal income taxes.

"The offering of this new security is for the purpose of encouraging long-term investors to retain their holdings of Government securities, in order to minimize the monetization of the public debt through liquidation of present holdings of the Treasury bonds of 1967-72.

"The Secretary stated that he planned to open the subscription books on Monday, March 26, and that the full terms of the offering and the official circular would be made available on March 19. The Subscription books will remain open for a period of about two weeks, although the Secretary will reserve the right to close the books at any time without notice.

"The Secretary indicated that a special offering of Series F and G bonds, or an offering similar to the 2-1/2% Treasury bonds, investment Series A-1965, will probably be made available for cash subscription at a later date when it appears that a need therefor may exist."

At this point Mr. Riefler was called from the room and upon his return stated that at 11:35 he received a telephone call from As-

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sistant Secretary of the Treasury Martin who stated that the proposed agreement had been cleared and that it was planned to release the joint announcement for publication in the Sunday morning papers, March 4.

Mr. Riefler added that Mr. Martin would like to know whether the Committee would now formally indicate its approval of the statement and of the agreement as set out in the memorandum read by Mr. Martin to the full Committee on March 1, 1951, and as clarified and interpreted by the clarifying points discussed yesterday. In this connection, Mr. Riefler reiterated the request of Mr. Martin that, during the period while the agreement with respect to support of the two longest-term restricted bonds was being carried out, there be no written understanding as to the extent to which the longest-term restricted bonds would be supported at 21 or 22/32 above par or as to the period of time for which such support would continue. Mr. Riefler also said that Mr. Martin stated that while the agreement as referred to above was satisfactory from the Treasury's standpoint, advice of it had been transmitted to the President in Florida and it was felt desirable to give him an opportunity to comment on it before it was released.

Mr. Thurston stated that Messrs. Lynch and Bartelt of the Treasury, in preparing the joint press statement, had emphasized that unless there was the utmost secrecy about the terms of the understanding, the success of the conversion offering, and as a matter of fact the entire agreement, would be jeopardized. He suggested, therefore, that it be understood that the statement to be released would speak for itself and that there would be no

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comments in connection with it by any member of the Federal Open Market Committee or the staff.

This suggestion was approved
unanimously.

There was a further discussion of the proposed agreement during which Mr. Szymczak inquired whether any reference was made in the conversation with Mr. Martin to concurrence by the Secretary of the Treasury in the request of the Board for cooperation of the Treasury in seeking early supplemental legislation to restrict expansion of bank credit. He said it was highly important that there be an understanding on that point for the reason that it would be difficult if not impossible to get legislation without Treasury support and that because of unavoidable limitations on open market operations it was necessary that the Board of Governors be given supplemental authority over bank reserves.

Mr. Riefler stated that he did not know whether Assistant Secretary of the Treasury Martin had specifically mentioned the question of additional legislative authority over bank reserves to the Secretary of the Treasury, but that Mr. Martin was on notice as to the Board's feeling and that the point was listed on the sheet which Mr. Martin had undertaken to show the Secretary of the Treasury. He also said that during the conversation Mr. Martin referred to the six points in the statement submitted to him by the Federal Open Market Committee yesterday and stated that there was agreement on those six points, that he had requested that for the time being there be no written record of the third

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point, with respect to support of restricted issues, and that it was possible that his reference to agreement on the six points included specific acceptance of the request for legislation.

Mr. Szymczak said that he could not vote to approve the agreement with the Treasury unless there was a clear understanding that the Treasury would support such legislation. He requested that steps be taken to get such an understanding since in his opinion it was an essential part of the agreement.

Chairman McCabe stated that this morning Mr. Blough of the Council of Economic Advisers called to discuss the report being proposed by Mr. Wilson, Director of the Office of Defense Mobilization, at the request of the President, and that he stated to Mr. Blough that, if the proposed agreement with the Treasury with respect to debt management and credit policy were approved, that phase of the problem would be eliminated from the report but that the other aspects of the problem of inflation would continue to be very important including the question of control of bank reserves, and that the Board of Governors would not want again to be in the position that it had been in before of having no support from other departments or agencies of Government when it went to Congress for additional authority over bank reserves. The Chairman also said that he told Mr. Blough that he would send to him the memoranda which had been prepared in the Board's offices on the various proposals that had been advanced as to the form the further regulation of bank reserves might take,

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and that he would like to have Mr. Blough's views.

After some further discussion Chairman McCabe stated that he would like to get word to Mr. Martin as soon as possible and therefore would like to have a vote on whether the executive committee would proceed under the authority granted by the full Committee at its meeting yesterday, to carry out the agreement.

Mr. Rouse stated on the basis of a telephone conversation with Mr. Sproul this morning, if the latter were present at the meeting he would vote to put the agreement into effect.

Mr. Szymczak stated that he could only vote to carry out the agreement with the understanding that the request for cooperation of the Treasury in seeking early supplemental legislation to restrict expansion of bank credit was understood by the Treasury and that the Treasury would cooperate in securing the passage of such legislation.

Mr. Eccles stated that while he voted for the program which had been negotiated with the Treasury he did so reluctantly because he felt strongly that before any new, refunding, or conversion issues of Government securities were offered to the public the market should be permitted to make price adjustments which more nearly reflected the real public market, always taking into account the need of maintaining an orderly market. He felt the proposed conversion was a case of prejudging the market. However, he said, he realized that the compromise program was the best that could be had in the circumstances, that it was a very important

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step in the direction of a more flexible market and greater freedom in the determination of System open market policies, that failure of the Federal Open Market Committee to approve the program might continue the unsatisfactory working relationship with the Treasury that had existed in the recent period, and that in these circumstances he felt justified in voting for it along with all other members of the Committee.

Chairman McCabe reiterated that Mr. Martin had stated that the agreement was dependent upon the enthusiasm with which the Federal Open Market Committee backed it up, that concern was great that by additional comments or leaks the success of the program might be jeopardized and that he urged each member of the Committee to bear this in mind, and that the suggestion made by Mr. Thurston for not elaborating upon the public announcement be adhered to strictly. He also suggested that consideration be given at an early date to adopting a rule that members of the Committee would not discuss open market matters with persons who prepared market letters having to do with security sales.

Chairman McCabe also stated that, in his opinion, the biggest hope in the agreement was the fact that he felt that it marked a new era in Federal Reserve-Treasury relations. He went on to say that if he did not feel that way, he could not vote for the agreement, but that he really believed that it was the beginning--and just the beginning--of a period of better understanding, and that a big responsibility rested on the members of the Open Market Committee just as it did on the Treasury, to see

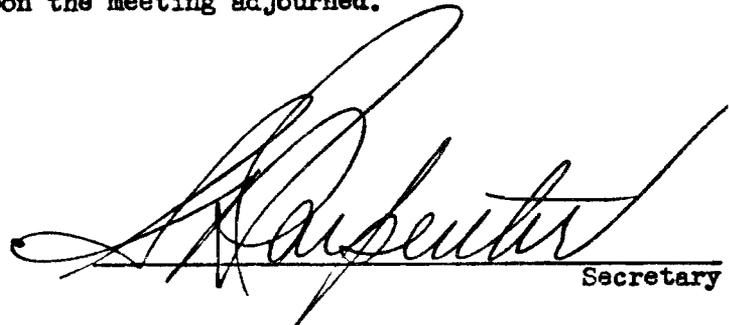
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to it that this new spirit of cooperation succeeded.

Thereupon, upon motion made by Mr. Szymczak and seconded, it was voted unanimously to carry out the agreement reached with the Treasury as evidenced by the memorandum read by Assistant Secretary of the Treasury Martin to the Federal Open Market Committee on March 1, 1951 as clarified and interpreted by the seven-point program set forth in the minutes of the meeting of the Federal Open Market Committee on March 2, 1951, with the understanding that this included approval of the joint statement to be issued by the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System and of the Federal Open Market Committee as set forth above.

Thereupon the meeting adjourned.



Secretary