A meeting of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington, D. C., on Thursday-Friday, March 1-2, 1951, at 9:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Evans
Mr. Gidney
Mr. Gilbert
Mr. Leedy
Mr. Powell
Mr. Szymczak
Mr. Vardaman
Mr. A. H. Williams

Mr. Carpenter, Secretary
Mr. Sherman, Assistant 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. R. A. Young, Director of the 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

The Secretary reported that advices of the election for a period of one year commencing March 1, 1951, of members and alternate members of the Federal Open Market Committee representing the Federal Reserve Banks had been received, that each newly elected member and alternate member had executed the required oath of office, and that it was the opinion of the Committee's Counsel, on the basis of the advices received, that the following members and alternate members were legally qualified to serve:

Allan Sproul, President of the Federal Reserve Bank of New York, with L. R. Rounds, First Vice President of the Federal Reserve Bank of New York, as alternate member;

Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

Ray M. Gidney, President of the Federal Reserve Bank of Cleveland, with C. S. Young, President of the Federal Reserve Bank of Chicago, as alternate member;

R. Randle Gilbert, President of the Federal Reserve Bank of Dallas, with no alternate member having yet been elected;

H. G. Leedy, President of the Federal Reserve Bank of Kansas City, with C. E. Earhart, President of the Federal Reserve Bank of San Francisco, as alternate member.

Upon motion duly made and seconded, and by unanimous vote, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 29, 1952, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee:

Thomas B. McCabe	Chairman
Allan Sproul	Vice Chairman
Merritt Sherman	Assistant Secretary
George B. Vest	General Counsel
Woodlief Thomas	Economist
Karl R. Bopp, Watrous H. Irons, Donald S. Thompson, Clarence W. Tow, and John H. Williams	Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after February 29, 1952.

Mr. Sproul stated that it was expected that the board of directors of the Federal Reserve Bank of New York at its meeting today would select Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System account and his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairman of the Federal Open Market Committee (who under the provisions of the by-laws is also Chairman of the executive committee) as members and alternate members of the executive committee until the selection of their successors at the first meeting of the Federal Open Market Committee after February 29, 1952.

Members	Alternates
Marriner S. Eccles	Oliver S. Powell
M. S. Szymczak	Rudolph M. Evans
	James K. Vardaman, Jr.
	Edward L. Norton
	(To serve in the order named as alternates for members elected by the Board of Governors)

Members	Alternates
Allan Sproul	Ray M. Gidney
Alfred H. Williams	H. G. Leedy
	R. Randle Gilbert (To serve in the order named as alternates for Messrs. Sproul and Williams)

Mr. Rouse stated that the Federal Reserve Bank of New York was working on plans so that the System open market account could continue to function in the event of a bombing disaster. The plan would contemplate, he said, that the Federal Reserve Bank of Chicago would be selected as an alternate to execute transactions for the System open market account and that the Federal Reserve Bank of St. Louis would be selected to operate the account, in the event neither the New York nor the Chicago Reserve Bank was able to function. Mr. Rouse went on to say that a depot with necessary files was being set up and that personnel were being trained to carry on such operations at one of the Banks mentioned, and he suggested that the Committee authorize the Chairman to appoint a Federal Reserve Bank as agent to operate the System account temporarily in case the Federal Reserve Bank of New York was unable to function.

> Upon motion duly made and seconded, Mr. Rouse's suggestion was approved unanimously.

Chairman McCabe stated that this meeting had been called for the purpose of bringing all members of the Committee up to date on recent developments and to meet this morning with Assistant

Secretary of the Treasury Martin and Fiscal Assistant Secretary of the Treasury Bartelt. He then reviewed developments between Saturday, February 10, 1951, and Wednesday, February 14, 1951, as recorded in the minutes of the executive committee meeting held on February 14, particularly with respect to his telephone discussions on February 10 with Secretary of the Treasury Snyder and Senators Maybank, Robertson, and O'Mahoney, before Secretary Snyder went to the hospital on February 11 for an eye operation, at which time he had stated that during his absence Chairman McCabe could discuss matters with respect to debt management problems with Mr. Martin.

The Chairman went on to say that following the meeting of the executive committee on February 14, he called Mr. Martin on the telephone and told him that the System was purchasing substantial amounts of the June 1967-72 restricted Treasury bonds and that the executive committee felt that it should allow the bonds to decline slightly in price. Chairman McCabe said that Mr. Martin asked that he talk with Under Secretary of the Treasury Foley and tell him what he had in mind, which he did, and that Mr. Foley called him back later and stated that the Treasury would prefer to support the June 67-72s rather than have the price on that issue decline. Mr. Foley then made a plea, the Chairman said, that the System continue the existing support level (par and 21/32) until the Treasury and the Federal Reserve could have an opportunity to discuss the whole matter.

Subsequently, Chairman McCabe said, Mr. Martin had lunch with Mr. Riefler on Friday, February 16, at which time Mr. Martin again expressed concern that members of the staff of the Treasury and the Federal Reserve were not in frequent consultation with each other concerning problems of mutual interest. Later on, the Chairman said, Mr. Foley called him again and suggested that, before action was taken to lower the support to par, the staffs of the Treasury and the Federal Reserve be given an opportunity to explore the whole problem before us, and that as recorded in the minutes of the meeting of the executive committee on February 26, 1951, it was agreed that such discussions would be undertaken. These started, he said, with a luncheon meeting at noon on Tuesday, February 20, at which Messrs. Martin and Bartelt of the Treasury and Mr. Haas, Director of the Technical Staff of the Treasury, had luncheon with him and Messrs. Riefler and Thomas. Chairman McCabe added that these members of the staffs and Mr. Rouse also met the evening of February 20, on February 21, and, at Mr. Foley's request, again on February 23.

The Chairman then referred to a telephone call which he received from Mr. Murphy, Special Counsel to the President, on Sunday, February 25, asking that he attend a meeting at the White House at 11:00 a.m. on Monday, February 26, for the purpose of discussing a financial mobilization program, concerning which he had sent a memorandum to Director of Defense Mobilization Wilson under date of January 16, 1951. (The memorandum addressed to Mr.

Wilson was read to the Committee at its meeting on February 6, 1951.) This meeting with the President and others on February 26 was reported in the press, the Chairman said, and was also commented upon in the minutes of the meeting of the executive committee held on that day.

Chairman McCabe then suggested that before Messrs. Martin and Bartelt arrived he would like to have Mr. Riefler report on the discussions between members of the Treasury and Federal Reserve staffs which had taken place February 20-23. The Secretary then read the letter which the Federal Open Market Committee approved and sent to the Secretary of the Treasury under date of February 7, 1951 and which had been used as an agenda for the discussions, and Mr. Riefler read a statement covering the discussions, written by Mr. Martin and revised by Mr. Riefler, with Mr. Martin's concurrence, as follows:

> It was clearly understood by all that these were explorations at the technical level and not negotiations.
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> Lengthy discussion of the techniques of the Open Market Committee and the necessity for better liaison between the Federal Reserve and Treasury was a part of the early discussion, and it was clear that both of us could be better informed on the thinking of the other. The discussion brought out the high degree of cooperation which exists between the Treasury and the Federal Reserve in coordinating the function of the Treasury in maintaining its daily cash position with the function of the Federal Reserve in controlling bank reserves. It was mentioned that the Treasury consults freely with the Manager of the Open Market Account in forecasting daily and weekly cash receipts and payments and in determining the amounts of calls to be made on Treasury Tax and Loan Accounts. The Manager of the Open Market Account was commended for his courtesy in furnishing information and answering questions regarding the market, when requested, but the view was expressed that if the Federal Reserve would consult more freely with Treasury before movements are made in the direction of changes in price levels (with consequent effects on interest rates) there would be brought about a closer coordination of

the credit policy of the Federal Reserve with the debt management policy of the Treasury. Treasury mentioned, particularly, its helplessness when Open Market Policy between financing periods results in a market situation which virtually predetermines an interest-rate change for the new financing. It was also felt that confidence is not promoted if new issues are permitted to "sour" shortly after they have been put on the Market.

The Federal Reserve group emphasized the desirability of keeping the Treasury fully informed of all open market operations and the reasons for them. The Manager of the account supplies the Treasury with regular market reports given to the Board and members of the Open Market Committee and also keeps the Treasury staff currently informed of operations. The Manager is glad to answer any questions that may be raised by the Treasury as to operations and objectives of policy. The Federal Reserve group are of the opinion that all operations have been conducted on the basis of and within the limits of policies previously determined by the Committee and communicated to the Secretary of the Treasury. They feel that any misunderstanding that might have risen in the past might be avoided through closer staff contact of the type contemplated for the future.

Inasmuch as the Federal Reserve group had a specific proposal, approved by the Open Market Committee, in the letter of February 7 of Chairman McCabe to the Secretary, most of the discussion attempted to clarify what was intended in that letter.

The Federal Reserve group continuously asserted the unhappiness of the Open Market Committee in continual monetization of the Federal Debt, particularly at premium prices and they made it clear that it was the judgment of the Committee that the price of the long-term bonds should be permitted to drop to par.

There was considerable discussion of the rigidities in the present market and the fact that a large amount of selling was probably because of commitments already made by insurance companies, savings banks, loan associations and the banking system, and the consequent replenishing of reserves through sales to the Federal Reserve in the open market of Government securities.

Under the policy proposed in the February 7 letter, the Federal would withdraw support from the short-term securities market and let it adjust itself around the 1-3/4 per cent discount rate now prevailing. They believe that once these adjustments were made, a groundwork would be laid in the market which would act as a deterrent to lending and at the same time make it possible to undertake in a more orderly fashion, although at somewhat higher rates, the refinancings which the Treasury faces in the final six months of the Calendar Year 1951.

Much of their argument revolves around the traditional abhorrence of the banks for borrowing from the Federal Reserve and their confidence in the restraining influence of borrowed reserves. Under these conditions short-term rates adjust to the discount rate.

At the suggestion of the Treasury group, the Federal Reserve group indicated a willingness to explore with the Committee the feasibility of a commitment to maintain the discount rate at 1-3/4 per cent for a period of time running through December 1951 in order to facilitate Treasury planning of new money and refinancing at the new levels established as a result of these adjustments. It was pointed out, however, that any such advance commitment might present difficulties since it would involve all directors of all 12 Federal Reserve Banks as well as the Board of Governors.

There was long discussion of the possibility of offering in exchange for the outstanding longest-term restricted bonds a new issue of a type that would lock funds in and remove these bonds as disturbing market factors. Particular attention, generally sympathetic, was given to a proposal advanced principally by Mr. Riefler that the Secretary announce a non-marketable 2-3/4 per cent long-term, installment retirement, bond (29-1/2 years) which could be exchanged for the existing 2-1/2's of June and December of 1967-72. This security would not be redeemable by the Treasury prior to maturity. However, a feature of this issue might be a privilege to exchange it prior to maturity for a 1-1/2 marketable five-year note in order to take care of situations where owners subsequently might desire a security that could be sold on the market. Mr. Riefler indicated that the amortization feature of the proposed 2-3/4 per cent non-marketable bond could be eliminated from the terms if on consideration by the Treasury that feature might be considered undesirable.

At the concluding session it was suggested by the Treasury group that if the Secretary should offer no objection to the Federal Reserve proposal with respect to the adjustment of short-term rates and should decide to announce a 2-3/4 per cent long-term non-marketable issue, to be exchanged for the outstanding long-term restricted issues, the Federal Reserve might consider maintaining the current levels in the June and December issues until it was demonstrated whether they would continue to require support. In the event that continued support were necessary, the Treasury group suggested that the Federal Reserve and the Treasury could meet again to consider the problem.

This was put forward, not as a counter proposal, but on an exploratory basis and with an earnest plea on the part of Mr. Bartelt that we not attempt to prejudge the market, or the ability of the Treasury later in the year to sell a 2-1/2 per cent security, such as a G bond or the 2-1/2 per cent Investor Series type issued in the Fall of 1947. It was his hope that such an arrangement would release pressure from the market and permit us to get a start on the refinancing program without impairing further public confidence in the markets.

It was suggested by the Federal that if the Treasury desired to test the new exchange issue this way, they might consider an agreement that the cost of supporting the first two hundred million purchased be shared equally by the Treasury and the Federal Reserve, that the Treasury carry 75 per cent of the cost of the succeeding $400 million, and that the Treasury carry the whole amount of any purchased in excess of $600 million.

There was a lot of talk about secrecy and the difficulty if such an agreement leaked in any other way than through the published statements of the Federal and the Treasury, and the belief on Mr. Bartelt's part that knowledge that the Treasury and the Federal had gotten together would act as a tonic in restoring confidence to the market.

There was general agreement throughout the discussions that the so-called feud between the Treasury and Federal was a most significant psychological factor in the current situation. Both groups attached great importance to the public's fear of further loss in the purchasing power of the dollar.

After extended discussion, it seemed to be generally agreed by all that the Federal Reserve approach was essentially a "package one" and is not susceptible, with any consistency, to very much compromise, unless there is a drastic change in the existing market situation, which on the basis of our talks appeared unlikely in the near future. It is the Federal view that their proposal would involve no serious disruption of the security market. They feel that the increased flexibility of the market would produce more confidence.

Their major point is an unwillingness on their part to continue monetization of debt. They concede that maintenance of orderly markets will entail some further monetization which they would hope to keep at a minimum.

There was general agreement that we were discussing degrees rather than absolutes, and that the Treasury was questioning the effectiveness of the operation, and also questioning the Federal evaluation that the repercussions in the market would not be serious.

Both sides agreed that monetization of debt must be stopped as far as possible. The Federal Reserve position was firm that this could not be done without repercussions in the money market while the Treasury view has been that it could be minimized through direct controls which were preferable to increases in interest rates. This was the philosophy back of the Secretary's January 18 address. Upon exploration of the proposals in the light of that address, however, it was agreed that the proposals discussed did not run directly counter to that address. He did not discuss an exchange issue. Such an issue at 2-3/4 per cent, if it were long-term and non-marketable, would be consistent with the pattern of a 2-1/2 per cent rate as announced by the Secretary on January 18.

At the end of the meetings it was made clear again that these were only exploratory talks. Accordingly, it was suggested that the matter now be referred to a higher level where negotiations or counter proposals might take place.

Mr. Riefler went on to say that about 6:30 p.m. Tuesday, February 27, Under Secretary of the Treasury Foley called Chairman McCabe on the telephone and said that he would like to have the staff discussions resumed and that Mr. Martin, in a discussion with Mr. Riefler, suggested that they be confined to those two. They met, Mr. Riefler said, at Mr. Martin's home on Tuesday evening, February 27, and early yesterday morning Mr. Martin informed him over the telephone that he could say that from the standpoint of the Treasury, the matter was sufficiently in hand so that it could be presented to the Federal Open Market Committee as a basis for discussion. Last evening Mr. Martin called him again and stated that Secretary Snyder wanted very much to have Mr. Bartelt accompany him so that there could be no possibility of misunderstanding of the matters which he would be authorized to discuss.

Mr. Norton joined the meeting during the foregoing discussion and at 10:17 a.m. Mr. Martin, Assistant Secretary of the Treasury, and Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, entered the room.

Mr. Martin made an introductory statement substantially as follows:

> In our discussions, we have not in any way exceeded our instructions. We attempted to clarify the letter of February 7, to see how far apart our thinking might be, and to see what areas of agreement there might be. I want to say for the Treasury people we could not have had pleasanter or more frank or more open discussions of the problem. I feel we got a good deal of education out of it. It at least gave us a better understanding of our mutual problem.
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> I am authorized by Secretary of the Treasury Snyder, who regrets he cannot be here, to make a definite counter-proposal. I want to make it clear it is not our desire to say "take it or leave it." There was never anything of that kind in our conversations. There is not any element of that in what I am about to propose. The Secretary has authorized me to come over and discuss this with the Committee. He would have liked to have been able to be here but his eye is just not in condition to permit that. I have been over to discuss it with him

step by step. He tires very easily and it would not be possible for him to come down. But that is the authority on which I am speaking.

We are very sorry on our side that this word "stable" has gotten construed as it has. Certainly John Snyder never intended that "stable" meant a peg at a price that would never vary. This has gotten into an area that is not just black and white. One thing that came out of our discussions was that that is not really a matter of absolutes but of degrees. As stated in the memorandum of our discussions, we have to look at this in terms of fluid market conditions. That is what a market is. It is a composite of judgments of a variety of people at a given time. The best judges in the world could not be sure about markets or values under given conditions.

The Secretary has in the back of his mind a very real concern about the seriousness of this present situation. I do not want to make any forecasts of what his thinking is, but he is very concerned about taxes, about the possibility of a direct attack on the United States within the foreseeable future, the demands that might be made on the Treasury in the light of that, the history of previous war financing, and the nature of the crisis which he has described as "business as usual, and politics as usual." He is just as sincere as any of us in wanting to resolve in a spirit of cooperation the impasse we have arrived at in what, I think you will agree, is one of the most difficult financial situations the United States has ever faced. We have refunding of $40 billion during a six months' period with an indeterminable amount of new money. Irrespective of what happens on the tax situation, there will be a lag in tax collections. We have tried to work on the Treasury side in a perfectly honest and objective way, but within the framework of the Secretary's speech of January 18. There are some inconsistencies that I would not try in any way to becloud to this group. All of you are more familiar with this subject than I. With that as a background, I would like to get on to the proposition.

Mr. Martin then read the following statement:

"With a view to reconciling the debt management problem of the Treasury with the problem of controlling credit by the Federal Reserve, the Secretary of the Treasury authorizes the fiscal and technical staffs of his department to negotiate with the Federal Reserve on the following basis:

"The purpose of this negotiation is to reduce to a minimum the creation of bank reserves through monetization of the public debt without creating a market psychology which would entail a lack of confidence in the stability of the Government securities market. More specifically, the purpose of the proposal is to relieve the Federal Reserve to the fullest extent practicable of the support of long-term Governments without compelling the Treasury to refinance maturing obligations during this calendar year, or to finance new fund requirements, on the basis of indeterminable rising interest rates. This can be accomplished within the framework of the 2-1/2 per cent long-term interest rate pattern announced by the Secretary of the Treasury in his address before the New York Board of Trade on January 18.

"The proposal involves 3 elements, (1) a new nonmarketable security to be issued in exchange for outstanding long-term 2-1/2 per cent bonds of June and December, 1967-72, (2) refunding the $50 billion of maturing securities between June 15 and December 15 of this year, and (3) the raising of new funds to finance the present emergency.

"These elements, while interrelated, will be dealt with separately.

"EXCHANGE OFFERING OF NONMARKETABLE 2-3/4%
FOR OUTSTANDING RESTRICTED TREASURY BONDS
OF 1967-72.

"In consideration of an agreement on the part of the Federal Reserve to maintain a stable securities market, as more specifically outlined below, the Secretary of the Treasury would agree to issue a long-term 29-year 2-3/4% nonmarketable security, which would not be redeemable by the Treasury prior to maturity, but which would be exchangeable prior to maturity for 1-1/2% 5-year Treasury notes. The purpose of this offering would be (a) to retire a large segment of the marketable debt, which is now causing difficulties for the Federal Reserve, and (b) provide a degree of flexibility for holders of the new nonmarketable security by making them exchangeable for a 1-1/2% 5-year note that could be sold on the market in case cash funds are needed. At the same time it avoids an increase in the demand obligations of the Treasury.

"One of the merits of the proposal is that it avoids a prejudging of the securities market. It is believed that this exchange privilege would give bouyancy to the restricted Treasury bonds of 1967-72, since the 'rights' or exchange privilege would be attractive to long-term investors who are more interested in interest return than they are in speculative possibilities. Thus, there would be created a buyers' market for the restricted Treasury bonds of 1967-72, and to this extent should relieve the Federal Reserve of a great deal of pressure. Conceivably, if market confidence would be restored through an unequivocal joint announcement by the Treasury and Federal Reserve that an agreement had been reached, the present market support problem of the Federal Reserve might disappear.

"It is realized, of course, that consideration would have to be given by the technical staffs of the Treasury and the Federal Reserve as to the effect of this action on other outstanding marketable securities in the intermediate and long-term area.

"In order to provide for this proposal a fair and reasonable testing period, it would be necessary for the Federal Reserve to agree to support the securities affected at present market levels. In a spirit of cooperation the Federal Reserve and the Treasury should become partners in the support program under which each agency would take a pro rata share of any purchases that may be required; that is, the Federal Reserve Open Market Account would take a percentage of the purchases and the Treasury would take the balance for Government investment account. It has been suggested, for instance, that the first $200 million purchased under the agreement would be shared equally by the Treasury and the Federal Reserve; that the Treasury and Federal Reserve would finance 75% and 25%, respectively, of the succeeding $400 million; and that the Treasury would carry the full amount in excess of $600 million. This would seem to be a reasonable basis of purchase during a testing period, but there is an inherent danger in the event of a 'leak' that the Reserve is committed to a stated amount. While it is realized that the Federal Reserve might not be willing to accept an 'open end' agreement, it must be recognized that public knowledge of a limitation would not encourage market confidence.

"REFUNDING OF THE $40 BILLION OF MATURING SECURITIES BETWEEN JUNE 15 AND DECEMBER 15 OF THIS YEAR

"During the 6 months period, June 15 - December 15, the Treasury will be required to refund almost $40 billions of maturing obligations, exclusive of Treasury bills. Success of this refunding demands confidence in the stability of the Government securities market. Therefore, it is imperative that the Treasury and the Federal Reserve reach an agreement on a monetary-debt policy for the balance of the calendar year, at least. Obviously, this program should not be encumbered with uncertainty, misunderstanding, and the prospect of rising interest rates. In return for an understanding that the Federal Reserve would maintain a stable price level during this period of financing so that the Treasury would not be required to finance on a rising interest rate, the Treasury would agree to a policy under which the Federal Reserve would allow the short-term securities market to adjust itself before June 15 around the 1-3/4% discount rate now prevailing. From the Treasury point of view it would be desirable to extend this period of stability for the duration of the emergency, but it is doubtful whether the Federal Reserve would be willing to commit itself that far ahead. On the other hand, if a closer working relationship could be established between the technical staffs of the Federal Reserve and the Treasury, it may be possible to suggest a program of monetary-debt management which might be acceptable to the policy-making officials.

"THE RAISING OF NEW FUNDS TO FINANCE THE PRESENT EMERGENCY

"On the basis of the President's budget estimates, and without making allowance for an increase from new taxes, it is estimated that new borrowings from this time to June 30, 1952 will amount to approximately $23 billion, distributed as follows: May 1951 $3.6 billion; July $6.5 billion; October $7.5 billion; April 1952 $5.4 billion. These figures make allowance for attrition on debt refunding operations of $3.6 billion, in addition to the cash deficit. The figures might be reduced by a revitalized savings bonds program and a revision of the yields on Treasury savings notes.

"Conferences with the Federal Reserve on the technical level might be helpful in laying out a program of debt composition in order that the Reserve may consider itself a full partner with the Treasury in maintaining an orderly market for the securities after they have been issued.

"It is generally recognized that there are no substantial amounts of non-bank funds seeking investment at the present time. Some people seem to think that there will be funds seeking investment sometime this Fall after other sources of investment have declined. It would seem that there would be no need at this time to attempt to prejudge the market so far ahead or to assume that the 2-1/2% long-term rate mentioned in the January 18 address will not be appropriate. Therefore, if a joint announcement of the Treasury and the Federal Reserve should be agreed upon, with a view to reestablishing market confidence, reference might be made to the fact that the Series G bond or the Investment Series Bond issued in 1947 might be made available for purchase by non-bank investors from time to time, the purpose of this reference being to indicate that there has not been abandonment of the policy statement in the January 18 address.

"While the following might appear unduly optimistic, and would, of course, depend a great deal upon the effectiveness of selective controls and other factors affecting the availability of investments, there is a possibility that this program may be of assistance to the Federal Reserve in de-monetizing some of the public debt which it now holds, and may enable the Treasury to acquire new money by selling in the market some of the restricted 2-1/2% bonds of 1967-72 previously acquired for Government investment account."

While reading the above statement Mr. Martin made substantially the following supplementary comments:

I started off by saying the purpose of this negotiation is to reduce to a minimum the creation of bank reserves through monetization of the public debt without creating a market psychology which would entail a lack of confidence in the stability of the Government securities market. By that we mean orderliness; we do not mean a precise peg. I have heard it said that the Federal Reserve intends to let bonds drop to 10 in the near future. I know there is nothing to that. It is as inaccurate as the report that the Treasury wants a rigid peg.

Next, as to the purpose of the proposal: It is to relieve the Federal Reserve to the fullest extent practicable of the support of the long-term Governments without compelling the Treasury to refinance maturing obligations during this calendar year, or to finance new fund requirements, on the basis of indeterminable rising interest rates. This is the year we are directly concerned with for the purposes of this discussion. We do not think you can precisely determine a rate level because, in the nature of the proposal, you will see that that could not be. We do want to keep within a reasonable framework during the period of this refinancing and the initial demands for new money, without magnifying unduly on either side the forces there are in the market, a pattern which would give us some basis for determining what the cost is going to be. We do not want to feel we are starting on a rising pattern of interest rates in what could be a period of war financing. No one here will say we could not have war by the end of this year or that we could not have a very serious situation in this country resulting from an attack on us. On the basis of this, we think the need could be determined within the framework of the 2-1/2 per cent rate pattern announced by the Secretary on January 18.

Now I would like to refer to the specific proposal for the exchange offering. Some people will think the 2-3/4 nonmarketable bond is a trick issue. We want to meet that head on. It is. It is an attempt to lock up as much as possible of these longer-term issues. The rate is another point for discussion. There is probably a large amount of money at 3 per cent. If tested on that basis, there is probably quite a bit. What there is at 2-3/4 per cent is quite doubtful. It is with full understanding of that hazard that we approach this. But it is also with the sincere feeling that if something like this is put out, we would unite to sell it to the public. We would hope that the offering would result in retiring a large segment of the marketable debt which is now causing difficulties for the Federal Reserve, and would provide a degree of flexibility for holders of the new nonmarketable securities by making them exchangeable for a 1-1/2 per cent 5-year note that could be sold on the market in case cash funds are needed.

Consideration by the technical staffs of the Treasury and the Federal Reserve of the effect of the 2-3/4 per cent issue on other outstanding issues in the intermediate and long-term area will require continuous discussion. We would hope that could be set in a broad picture of a joint Treasury-Federal Reserve debt management program. What the result of that will be, the very difficult market situation will determine.

In our discussions we talked about a fair and reasonable testing period for this. We felt there would have to be a spirit of cooperation between the Federal Reserve and the Treasury in a support program of this type. We would, in the nature of the current difficulty and not in terms of consistency with overall logic, want support at current levels during the testing period to assure people generally that the Treasury and Federal Reserve were partners in the agreement. We mention some figures for this support but we are very wary about precise limits to the assurance that might be given because of the inherent danger of a "leak" that the support is for a limited amount. Nevertheless, we have discussed in our group and I have discussed with the Secretary that the first $200 million might be shared equally by the Treasury and the Federal. The Secretary would like to have the whole $600 million supported equally by the Federal and the Treasury, but to assure you that I am not here to try to get a program of that sort, we would reluctantly agree to make it a 75-25 per cent arrangement on the next $400 million. That does not mean that we would adhere to precise amounts if the total reached say $630 million, or that we would not want to consider the matter actively again before we reached that limit. It is vital that this arrangement not become public as that would endanger the whole thing. One of the most difficult things we have is the fact that newspaper people and market people, generally, (I do not say this comes from the Fed, it comes from the Treasury too) have more information on actual operations of the Treasury than there is in the Treasury and the Federal.

We would really like to see the June 67-72s, if possible, marked up from 21/32 above par to 22/32 as an initial part of this operation.

The success of the refunding of $40 billion of maturing securities between June 15 and December 15 of this year demands confidence in the stability of the Government securities market. In using the word "stability" in reference to that period, we mean a "confident tone", that we would use such resources as we have to keep the market in a confident tone. We realize that "stability for the duration of the emergency" would be for an indeterminate period and there may be an advantage for both of us in not going that far. Therefore, I would say for the calendar year 1951. On that basis, if the Federal would maintain a stable market to the end of this year, the Treasury would be prepared to have the short-term rate adjust around the discount rate. We fully recognize that the influence of the discount rate may or may not be changing as to its effect in the market. We understand the traditional abhorrence of the banks to borrow reserves and the restraining influence that may have. We are fully prepared to see the rate adjust, but we would like to have it as nearly as possible adjusted by market forces in an orderly market and not driven to the higher level.

Mr. Sproul commented at this point that there seemed to be some implication in Mr. Martin's statement that the Committee might drive the market to a position. The fact was, he said, that the Committee did not in its operations drive securities to any price or yield, that market forces had been the determining factor, and that only in resisting the creation of reserves had the Committee been a party to an increase in rates. That, Mr. Sproul said, was the result of market forces, and not the action of the Committee. He added that it should be clear that if securities were offered in substantial amounts and the Committee did not choose to buy because it did not wish to put reserves in the market, prices would go down and yields up.

Mr. Martin then continued with his statement substantially as follows:

> I am glad that you interrupted me because I did not mean to give that implication. It was demonstrated to the satisfaction of the Treasury representatives in our discussion that there was no desire on your part to increase rates and that you did not operate in that framework. I agree with what you say about the operation of market forces. Isn't it understood that in going along in the adjustment to the discount rate, we do it not with any criticism of past actions but that you will maintain a policy of not attempting to influence the market? It would be possible from the connotation of this that you could go in and influence the market. We have to concede that these negotiations are in an unhappy atmosphere because there have been so many discussions. On that point, one thing that struck Mr. Bartelt and myself was our inability to answer many questions that come up with respect to Federal Open Market operations. It is difficult to run a show in a gold fish bowl and you can not have Treasury people sitting up in New York all the time, but we would hope that we would have closer discussions and cooperation so that we would not have as much loose talk that cannot be answered.
>
> I have made it very clear to the Secretary that it would be our understanding that it would be agreed by the Federal that the discount rate would be maintained at 1-3/4 per cent for the balance of this calendar year. In the course of the adjustment to the discount rate and with current market conditions, we are under no illusions as to how far the adjustment could go. It might exceed 1-3/4; it might go to 1.35. Some people do not think it

could go quite out there. Some people think it would stay pretty close, while others feel it would exceed the discount rate somewhat. But I wanted to make it clear in this discussion that we are not talking about adjusting on 1-3/4; we are talking about that as a pivot.

Now we come to the raising of new funds to finance the present emergency. We estimate that new borrowings from now until June 1952 will be approximately $23 billion, although that might be reduced by a revitalized savings bond program and a revision in the yields on Treasury savings notes which we recognize will be needed.

We think that discussions with you would be helpful in laying out a program of debt composition in order that the Reserve may consider itself a full partner in maintaining an orderly market for securities after they have been issued. Therefore, if a joint announcement should be agreed upon, reference might be made to the fact that the series G bond or the investment series bond issued in 1947 might be made available for purchase by nonbank investors from time to time. The purpose of this reference would be to indicate that there has not been abandonment of the January 18 statement.

That in essence is our proposition. It is offered in the most cooperative spirit and an earnest desire to get a united team of the Federal Reserve and the Treasury. I do not see any solution by Congress which will be satisfactory to everyone in the long run. We are in the situation of the Army and the Navy and we have to work together in a war.

Chairman McCabe expressed the appreciation of the Committee for the frank manner in which Mr. Martin had spoken, and stated that it had been reported to the Committee that in the Treasury-Federal discussions the Treasury representatives had continuously worked with a most cooperative spirit.

In response to a request by Mr. Szymczak for a clarification of the proposal that prices for Treasury restricted bonds of 1967-72 be maintained at 22/32s above par, Mr. Martin said that he recognized that there was some inconsistency in this suggestion, but that there was also a basis for it in that there was some feeling that maintenance at that level throughout the period of the proposed conversion would help assure a successful conversion operation.

Mr. Bartelt stated the belief that the market would be more confident if the securities remained where they were for a short while. If the prices for the securities declined immediately, he said, he felt it would impair market confidence and that the new 2-3/4 per cent security would not get off to a good start. He added that a figure of 100 or 100-22/32 had nothing sacred about it, but that if the over-all program was adopted, it was important that the refunding have a fair chance, and that in his opinion the program would have a better chance of success if it was not started off by a decline in bond prices. Mr. Bartelt also said that the Federal Reserve was not being asked to maintain these prices forever, that it was being asked to give the new conversion issue a chance, and that he felt that the best chance for success would come if the market was held at present levels.

It was also brought out that the period of support under discussion was only until a reasonable time after the conversion had been completed.

Some of the members of the Federal Open Market Committee commented that in their opinion the new issue would have a better chance of success if the price for the 67-72s was not maintained at a premium but permitted to decline to where support would not be required except for the purpose of maintaining an orderly market. The reasons for this position were fully discussed.

With respect to the discount rate, Mr. Martin stated that he realized the difficulties of a commitment such as that proposed, but that it seemed important to have assurance that the short-term market would be permitted to adjust itself around the present discount rate, that the Treasury would prefer that this assurance be given for the duration of the emergency but realized that that was asking more than the Federal Reserve might feel it could give, that the next best would be to have assurance through the calendar year 1952, but that in the memorandum he had read it was suggested that assurance be given for the remainder of this calendar year as something which could be accepted by the Treasury and might be acceptable to the Federal Reserve.

Mr. Szymczak inquired whether there had been discussion in the staff meetings of increased authority over reserve requirements and Messrs. Szymczak, Evans, and Vardaman said they felt, particularly if the short-term rates were limited in accordance with the proposal, it would be essential to have additional authority over reserve requirements if the Federal Reserve was to maintain an orderly market for Government securities and at the same time avoid undue monetization of the public debt.

Mr. Martin responded that discussion of that point was outside his instructions, but that he understood the inter-agency committee appointed by the President on February 26, 1951, of which Mr. Wilson, Director of the Office of Defense Mobilization, was Acting Chairman, expected to have a study made of that matter with a view to getting administration support for an increase in reserve requirements.

Mr. Sproul referred to the program for series E savings bonds, stating that the staff report submitted to Mr. Bartelt early in January of this year made some suggestions with respect to this program. He expressed a hope that a revitalized program, not only in terms of the securities to be offered, but also the organization for promoting their sale could be given further consideration before the heavy maturities of savings bonds started in 1952. Mr. Sproul emphasized the view that it was highly important that people now holding savings bonds be convinced of the desirability to continue to hold them, and that it was equally important that such bonds be made attractive so that new purchasers would wish to hold them. He stated that he did not feel that the present program would do the job, that unless a more attractive bond and a more effective selling organization was developed, not much could be expected, even if the inflationary rise in prices was halted.

Mr. Bartelt responded that the Treasury would be glad to receive any information which the System had on this matter, and that he would be glad to get out the staff memorandum which had been sent to him early in January and study it further.

Chairman McCabe raised the question as to how long it was contemplated the books would be open for the conversion of the 2-1/2 per cent bonds into the new nonmarketable 2-3/4 issue, and Mr. Bartelt responded that it ought to be a limited period of time, probably two weeks, although if this conversion were successful it might be followed by a later opening of the offer. He stated that the steps in the program would be, first, announcement of a joint agreement by the Treasury and the Federal Reserve and, simultaneously, a general announcement of the new offering would be made with a statement that details would be given a little later. In this connection, it was suggested that it would be highly desirable that the announcement of an agreement be made over the coming weekend, and that if this were done, the books for the conversion offering would be open, either during the week beginning March 19 or the week beginning March 26.

Returning to the question of the support to be given to the restricted bonds and whether the proposal of the Treasury contemplated any support at all following completion of the conversion offering, Mr. Bartelt stated that he wished to avoid any difficulty that would cause holders of the securities to accuse either the Treasury or the Federal Reserve of trickery, and that he felt the question of the length of time for which support should be given should be worked out within the framework of the memorandum which Mr. Martin had read. He added that an orderly market might have developed by the time the conversion was completed and that he was concerned that nothing be done to indicate that the Federal Reserve was running out on any agreement that might be reached, since that would cause a further lack of confidence in the entire Government securities market.

Mr. Martin stated that with respect to the timing of the announcement he would think that the coming weekend would be the most desirable time from the standpoint of the market. He added that whatever announcement came out after having been carefully worked out would have to be cleared with Secretary Snyder, and that this might demand a little time, but that he believed it could be done in time for this weekend. Mr. Martin added that with respect to support of the present restricted issues, their program contemplated that there be no support after the conversion issue was out of the way.

Mr. Bartelt stated that the new conversion issue was only a part of the program of the Treasury, that it was apparent that there would have to be some revision in the terms of savings notes, and that he felt the Treasury might sell substantial sums of such notes during the next fiscal year by making their yields more attractive. Mr. Bartelt also commented on the large maturities that would fall due in June and July of this year, and on the importance of having the market in a condition at that time to assure success of whatever issues might be offered.

Mr. Martin stated that he wanted to make it clear that there had been an atmosphere of misunderstanding between the Treasury and the Federal Reserve for some time, that it was easy to talk about mutual cooperation, but that if there were to be genuine understanding it would require continuous effort and consultation on the part of the technical staffs of both the Treasury and the Federal Reserve. He added that he felt that the two staffs were closer together than they had ever been, that he wanted to make a sincere effort to continue on that basis, that the problem of debt management required close cooperation between the Treasury and the Federal, and that he had approached the problem with a very real spirit of humility.

Mr. Bartelt stated that he greatly appreciated the friendliness of the Federal Reserve people in carrying on fiscal activities, that as far as day-to-day operations were concerned there had been absolute harmony at all times on a partnership basis, that the Treasury had attempted to manage its tax and loan account so as to assist the Federal Reserve in minimizing fluctuations in bank reserves, that it was in constant communication with the Federal Reserve Bank of New York on this matter, and that in the event of a difference of estimates of tax receipts or other factors affecting the Treasury's cash position, more often than not the Treasury accepted the judgment of the Reserve Bank in determining operations.

On behalf of the Federal Open Market Committee, Chairman McCabe expressed the appreciation of the Committee for the very frank and cooperative manner in which the Treasury representatives had worked with members of the Board's staff in the recent discussions, and the effective and cooperative manner in which the proposals of the Treasury were presented at this meeting.

The meeting recessed at 12:45 p.m. and reconvened at 2:20 p.m. with the same attendance as at the close of the morning session except that Messrs. Martin and Bartelt of the Treasury were not present.

At Chairman McCabe's request, Mr. Carpenter read the letter sent to the President under date of February 7, 1951, in response to his letter to the Chairman dated February 1, 1951, both of which are recorded in the minutes of the meeting of the Committee on February 6-8, 1951. In response to a question, Chairman McCabe stated that the letter to the President was still at the White House, that he had received two requests to withdraw it, and that the executive committee agreed unanimously at a meeting on February 14 that the letter should not be withdrawn. He also said that Mr. Murphy, Special Counsel to the President, had come over to discuss the letter since it had been turned over to him and if a reply were to be sent he would have to prepare it, and that Mr. Murphy stated he did not know what to say in reply but if a reply were expected he would like to discuss it with members of the Federal Reserve staff. The Chairman said that he told Mr. Murphy he was welcome to discuss the letter with members of the staff and that it was entirely optional with the President whether he wanted to make any reply. He added that, having heard nothing further, he doubted that there would be a reply.

Mr. Carpenter then read again the letter to the Secretary of the Treasury, dated February 7, and the statement which Mr. Martin had read at the session this morning.

During the ensuing discussion, Chairman McCabe commented on views expressed by the Federal Advisory Council at its meeting on February 18-20 concerning a practicable and feasible program of action that might be followed by the System to combat inflationary developments, particularly with respect to Federal Reserve-Treasury relations, and at his request Mr. Carpenter read the statement submitted by the Council which presented views differing from those expressed by the Federal Open Market Committee.

The Chairman raised the question whether, since the views of the Federal Advisory Council failed to support the position taken by the Federal Open Market Committee, it would be desirable to have the matter discussed at meetings of Federal Reserve Bank directors in order to ascertain their views, but no conclusion on this point was reached.

There was an extensive general discussion of the proposals made by the Committee in its letter to the Secretary of the Treasury on February 7 and of the points of difference between those proposals and the program suggested in the memorandum read by Mr. Martin earlier in the day in the light of the responsibilities of the Federal Open Market Committee in the existing inflationary situation for restricting the expansion of bank credit.

During this discussion, Mr. Vardaman withdrew from the meeting at 3:30 p.m.

In the course of the discussion, the members of the Committee expressed their views at length on various aspects of Federal Reserve policy. Questions were raised as to the exact meaning of some of the proposals contained in the memorandum that had been read by Mr. Martin and whether he and Mr. Bartelt fully understood the significance of some of the proposals as interpreted by Messrs. Riefler, Thomas, and Rouse, in the light of the staff discussions that had taken place. Among the points about which it was felt additional information was needed before the Committee could indicate whether the proposals made by Mr. Martin could serve as a basis for an accord, was the exact meaning of the suggestion that the Federal Reserve and the Treasury jointly support the restricted Treasury bonds of 1967-72 at par and 21 or 22/32s, and the relative extent and length of time for such support. It was also suggested that Mr. Martin should be informed that the Open Market Committee could not make any commitments with respect to discount rates of the Federal Reserve Banks and of the extent to which the Board of

Covernors of the Federal Reserve System might make a commitment with respect to such rates if it considered it desirable to do so. A third point not covered in Mr. Martin's memorandum was whether the Treasury would support or oppose legislation which would give the Federal Reserve additional authority over bank reserves. Mr. Sproul emphasized that we should not, in any way, indicate acceptance of the implication or interpretation that the proposed agreement could be carried out within the framework of the address of the Secretary of the Treasury before the New York Board of Trade on January 18. It was also suggested that before indicating whether the proposals could be used as a basis for agreement, more information would be needed on the wording of the proposed joint statement to be issued by the Treasury and the Federal Reserve. In order to assist the Committee in its further consideration of the matter, it was suggested that Messrs. Riefler, Thomas, and Rouse meet with Messrs. Martin and Bartelt again tonight to clarify further the proposals for agreement. It was agreed that this suggestion should be followed and that, because of the lateness of the hour, the meeting would reconvene tomorrow morning for the purpose of hearing the report of the members of the staff.

In this connection, Mr. Eccles stated that because of a previous speaking engagement before the Executives' Club of Chicago, which he did not feel he could cancel, he would not be present at the session tomorrow but that, if it was ascertained that the Treasury would be willing to have the entire Government securities market adjust within the range of the 1-3/4 per cent short-term rate, he would be inclined to vote to approve an accord on the basis of a temporary support for the 1967-72 restricted Treasury bonds, within the dollar limits suggested in Mr. Martin's memorandum, up to a date not beyond April 15, 1951.

The meeting then recessed at 6:35 p.m. and reconvened at 9:35 a.m. on Friday, March 2, 1951, with the same attendance as at the beginning of the afternoon session the day before, except that Mr. Eccles was not present.

Chairman McCabe called upon Mr. Riefler for a report of the staff conversations last night, and Mr. Riefler made a statement in part as follows:

> We met last night at Mr. Martin's house from 8:30 p.m. until a little after 11:00 p.m. Messrs. Martin, Bartelt, Thomas, Rouse, and I were present. It was a long discussion during which we tried to bring out on the table and discuss every possible angle, slant, innuendo, and facet of the problem so that there would be no possibility of misinterpretations. There is a possibility of a misunderstanding on one point we should cover because Mr. Rouse questions whether there is a full understanding of what the possible effects of the proposed program may be and it is important that both sides understand what it may mean in terms of market prices and rates.
>
> First, we went into reserve requirements and opened up by asking the Treasury attitude toward the President's statement in the memorandum which he read at the White House on February 26. We do not have much to report on that. The matter has not been taken

to the Secretary of the Treasury for policy decision; therefore, there is no statement as to Treasury policy that can be made. Mr. Martin did say that the Secretary has expressed himself as friendly toward some plan of reserve requirements. The one they are most interested in is the security reserve plan, but that has not progressed to a point where there has been any policy decision.

Next we took up the question of the discount rate, explaining that the Open Market Committee as such had no power to commit on discount rates. We also said that it was obviously very difficult for the Board of Governors to commit twelve Federal Reserve Banks on the rate, and we thought the best that could be done would be to say that before the Board of Governors would approve an increase in the discount rate, there would be consultation with the Treasury, and the reason would have to be very compelling. They indicated they would be satisfied with such an arrangement.

On the question of the support and the premium on the long-term restricted bonds and the handling of the conversion issue, we went through many facets of that and tried to cover all possible areas of misunderstanding. The only place where there could be monetization of debt under the program, which they understand, is in any commitment for support of the restricted bonds during the exchange offering, and a misunderstanding as to what is meant by "orderly market", or what would be involved in refinancing a new money issue in the last six months of this year. On the question of orderly markets, it was their understanding that "orderly" meant "orderly". There is no peg in this proposal, except the 22/32 above par for the restricted issues to be exchanged; after that, orderly means an orderly market without reference to par. That would apply even to the 67-72s after the conversion.

On the refunding and new financing in the last half of the year, the proposal envisages that the Treasury, in consultation with us, will offer maturities and terms which will be designed to raise the necessary funds without support. The Treasury would not be committed in the program to raise money at any rate but rather to offer issues which will not require support, because the

Secretary of the Treasury did not mean in his January 18 speech that new funds would be raised by monetization of the debt. If war were declared, they would expect the Federal Reserve to help raise the necessary new money but they would collaborate with the Federal to the fullest extent so that monetization of the debt would be held to a minimum.

Mr. Bartelt feels that the proposal they made is the best way to bring out the new conversion issue, i.e., that we should not cause any disturbance in the market at the time of announcing the new issue, but that if the $600 million referred to in Mr. Martin's memorandum were reached fairly quickly, Mr. Bartelt would feel that the matter would be open for discussion and change. He did not feel that support would be continued for long after the close of the offering and that we would not find ourselves going into May or June with a peg at that end of the market. Support of the two restricted issues during the conversion is a controlling point. The proposal would be dropped if it did not include this point. Our commitment would be limited to $200 million and after that additional support, if given, would be carried on with Treasury funds.

With respect to the proposed joint statement, Mr. Martin expressed the thought that it should be as financial as possible, that they would not want a reference to the January 18 address of the Secretary, that that point would be covered by a reference in the announcement of the conversion offering to the possible opening of F- and G-type bonds later on, and that they very much wanted a clause indicating that the purpose of the agreement was to reduce to a minimum the creation of bank reserves through monetization of the debt. Mr. Martin was not definite about the period for which the Treasury would expect support of the 2-1/2 per cent restricted bonds of 1967-72 at 21/32s above par.

In supplementary comments, Messrs. Thomas and Rouse expressed generally the same views as those given by Mr. Riefler concerning the discussion with Messrs. Martin and Bartelt last evening except that they were somewhat less certain that both Mr. Martin and Mr. Bartelt understood fully that their interpretation of the proposals involved no support for longer Treasury restricted bonds after the conversion except for maintaining orderly markets.

During the ensuing discussion, it was suggested that Messrs. Martin and Bartelt be invited to meet again with the Committee this morning for further clarification of any questions that might occur to any members of the Committee, and to make certain that the Treasury representatives understood the full significance of the proposed agreement. In the course of the discussion of support levels for Treasury bonds, several members of the Committee expressed the view that there should be no commitment for support at any level beyond the commitment for maintenance of an orderly market except for an understanding that the 1967-72 restricted bonds would be supported at existing levels within a limited dollar amount of purchases and for a period of time not extending beyond approximately the period of the conversion offering.

In this connection, Mr. Evans stated that he was very much in favor of getting as far as possible away from supporting the longest-term bonds, that it was the responsibility of the Secretary of the Treasury to set the terms for his offerings of securities, that the Federal Reserve should insist that the Treasury sell such securities to nonbank investors and not expect either the Federal Reserve or the commercial banks to buy them beyond the requirements of orderly markets. He thought that if the proposed agreement were reached, the most important task the Committee had to perform was to get additional legislation that would give the Federal Reserve control over bank credit expansion and monetization of the debt.

Mr. Szymczak stated that the program suggested by the Treasury would be helpful and of first importance in restricting the creation of bank reserves, that that and not interest rates was the real problem, but that in his opinion it would be essential, particularly if a period of deficit financing were entered, for the Federal Reserve to have additional authority over bank reserves. Mr. Szymczak also said that he felt it very essential that the Committee have ample opportunity for careful study of any statement covering an agreement that might be reached before it was issued.

To assist in a further review of the proposed agreement with Messrs. Martin and Bartelt, and to make certain that there could be no possible misunderstanding, there were discussed and set down the principal points of the proposed understanding as follows:

1. Purpose - to reduce to a minimum the creation of bank reserves through monetization of the public debt, while assuring the financing of the Government's needs.

2. Agree with the idea of conversion offering which should be designed to do the job of removing long-term restricted 2-1/2s from the market.

3. Will support outstanding 2-1/2s (restricted) at 21/32 above par on Junes and 22/32 above par on Decembers (in an amount up to a maximum of $200 million and for a period not exceeding April 15, 1951).

4. Discount rate - Board of Governors will approve no change during rest of calendar year without prior consultation with Treasury and unless very impelling circumstances.

5. Orderly market - with exception of support of long-term 2-1/2s for fixed amount and fixed period during conversion offering, orderly market means maintaining orderly conditions without reference to par on any issue.

6. Public statement - brief general financial non-political statement.

7. Board requests your cooperation in seeking early supplemental legislation to restrict expansion of bank credit.

The meeting then recessed in order to give Mr. Riefler an opportunity to discuss the above points with Messrs. Martin and Bartelt, who had come to the Board's offices at 11:30 a.m. It reconvened at 2:55 p.m. with the same attendance as at the close of the morning session except that Mr. Thurston was not present.

Chairman McCabe then called upon Mr. Riefler for a report of his latest conversation with Messrs. Martin and Bartelt, explaining that he and Mr. Sproul had joined the discussion before it was completed.

In commenting on the discussion of the seven points, Mr. Riefler stated that both Messrs. Martin and Bartelt said that there was no issue in connection with number 1, that they agreed with points 2 and 4, that they felt point number 6 could be worked out satisfactorily since their views accorded with those expressed in the statement, and that a discussion of point number 7 (legislation on reserve requirements) was outside the range of their authority and they could not discuss it. Most of the discussion, therefore, centered on points 3 and 5.

Mr. Sproul stated that point number 3 was one of the most difficult for them to agree to and that they were extremely anxious 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 statement in writing with respect to any dollar amount of or period of time for support of the 1967-72 restricted bonds. After discussion, he said, they agreed that the interpretation of this point as presented by the Committee was implicit in the whole agreement, but Mr. Martin was not certain whether he had discussed the significance of the point fully with the Secretary of the Treasury, and he could not be certain that the Secretary of the Treasury understood it as clearly as was set out in the list of seven points. Therefore, Mr. Martin felt it would be necessary to see the Secretary again in order to make certain that there could be no possible misunderstanding on this point. With respect to point number 5 on orderly markets, Mr. Sproul said both Mr. Martin and Mr. Bartelt, after the latest discussion of the matter, also realized the Committee's interpretation of that point was implicit in the whole agreement. This, like point number 3, was one which Mr. Martin was not certain that he had covered sufficiently with Secretary Snyder, and he felt it would be necessary to make certain that the Secretary had a full appreciation of its significance before any agreement was concluded. This, he said, probably could not be done until tomorrow morning.

Mr. Szymczak inquired as to whether Mr. Martin would discuss with Secretary Snyder the question of additional authority over bank reserves, and Chairman McCabe responded that it was his understanding that while Mr. Martin expected to mention the matter to the Secretary, he did not feel that there would be more than a general indication as to what the Treasury's position would be, particularly since no specific program for increased authority over reserves was before the Secretary for consideration.

Chairman McCabe then stated that Mr. Thurston, Mr. Bartelt, and Mr. Lynch, General Counsel of the Treasury, had prepared a draft of joint statement that might be issued with a view to having it available for consideration by the Committee, and that Mr. Martin would like to clear it with Secretary Snyder when he saw him to discuss the foregoing points of the agreement. The statement 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."

Following a discussion, it was agreed unanimously that the foregoing statement for release and the statement of the Committee's understanding of the proposed agreement contained in the list of seven points set forth above should be submitted to Secretary Snyder with the understanding that if he agreed with the program as discussed the executive committee of the Federal Open Market Committee, acting under the direction of the full Committee, would be authorized to carry out the program and to resolve any questions raised by the Treasury which would not change the essential features of the program.

The members of the Board of Governors present indicated that a meeting of the Board would be held following the meeting of the Federal Open Market Committee to approve and ratify the above joint statement, a statement by the Board contained in the seven principal points set forth above that it would approve no change during the rest of this calendar year in the discount rates of the Federal Reserve Banks without prior consultation with the Treasury and unless very impelling circumstances existed, and a request for the cooperation of the Treasury in seeking from the Congress early supplementary legislation to restrict the expansion of bank credit.

With respect to the instructions to be issued to the executive committee, Mr. Sproul suggested that in view of the possibility of an increased volume of transactions that might result if the proposed agreement were carried out, the limitation in the first paragraph of the general direction to be issued to the executive committee be increased from $2 billion to $3 billion.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously with the understanding that the limitation contained in the direction would include commitments for the System open market account:

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), 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 aggregate amount of securities held in the account at the close of this date other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury shall not be increased or decreased by more than $3,000,000,000.

The executive committee is further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of 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 $1,000,000,000.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period February 6, 1951, to February 28, 1951, inclusive, were ratified and confirmed.

Thereupon the meeting adjourned.

Secretary.