

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Friday, May 2, 1947, at 10:35

a.m.

PRESENT: Mr. Sproul, Vice Chairman
 Mr. Szymczak
 Mr. Draper
 Mr. Vardaman
 Mr. Davis

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary
 Mr. Vest, General Counsel
 Mr. Thomas, Economist
 Mr. Rouse, Manager of the System Open Market Account
 Mr. Thurston, Assistant to the Chairman of the Board of Governors
 Mr. Smead, Director, Division of Bank Operations, Board of Governors
 Messrs. Musgrave, Chief, and Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee on April 1, 1947, were approved.

On April 22, 1947, in order to increase the authority of the Federal Reserve Bank of New York to sell and redeem securities for the System open market account the members of the executive committee approved an increase from \$1,500 million to \$1,750 million in the limitation contained in paragraph (1) of the direction issued by the executive committee at the meeting on April 1, 1947.

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Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee on April 22, 1947, was approved, ratified, and confirmed.

Mr. Rouse then presented a report prepared at the Federal Reserve Bank of New York of open market operations during the month of April 1947. He outlined the action taken by the New York Bank in connection with the direct exchange this week of maturing bills held in the System account and in the option account of the New York Bank for new Treasury bills dated May 1, 1947, and he read the review, contained in the report, of the market for United States Government securities, April 1 to May 2, 1947. He also stated that the underlying strength in the market had not diminished and that if long-term bonds were available for purchase, without increasing prices and the accompanying decline in yields, large amounts would be purchased particularly by savings banks and insurance companies.

At the conclusion of a discussion of the report, upon motion duly made and seconded, and by unanimous vote, the transactions in the System account, as reported to the members of the executive committee, for the period from April 1 to May 1, 1947, inclusive, were approved, ratified, and confirmed.

For the purpose of reviewing developments since the last meeting of the executive committee, Mr. Sproul stated that following that meeting a summary memorandum was prepared setting forth the procedure

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to be followed in connection with (1) the establishment by the Board of Governors of an interest charge on Federal Reserve notes, the proceeds of the charge to be transferred to the Treasury, (2) the announcement by the Treasury, concurrently or after a brief interval, of an arrangement for the tendering of maturing bills in exchange for new bills being offered by the Treasury, and (3) announcement by the Federal Open Market Committee, currently or after a brief interval, that the fixed buying rate and repurchase option on Treasury bills would be discontinued with respect to bills issued after a certain date. He said that Chairman Eccles and he had a full discussion of these three actions with Messrs. Snyder, Wiggins, and Bartelt on April 18, 1947, after which Mr. Snyder stated that the Treasury would like to study further the procedures proposed in the memorandum and that he would call later in the day to advise what the views of the Treasury were. Secretary Snyder telephoned later in the afternoon on April 18 after Chairman Eccles had left for the West, Mr. Sproul said, and stated that the Treasury had come to the conclusion that it would be desirable to go ahead with the establishment of the interest rate on Federal Reserve notes and the direct exchange of maturing bills for new bills, but that there were certain questions of procedure in connection with the elimination of the posted rate and repurchase option which the Treasury would like to consider further

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and that it would express its views the following week. Mr. Sproul added that he told Mr. Snyder that the memorandum had been prepared with the thought that all three actions would be decided upon as a single program, but that if the Treasury desired further time to consider the third step there would be no objection to announcing the establishment of the interest rate on Federal Reserve notes and the direct exchange of Treasury bills, which was done on April 24, 1947. Mr. Sproul went on to say that, not having heard from Mr. Snyder, he called him on Wednesday of last week, that Mr. Snyder said he had been occupied with hearings on tax legislation but would get into the matter immediately and we would hear from the Treasury shortly, that he (Mr. Sproul) called Under Secretary Wiggins this morning to tell him about this meeting of the executive committee and to ascertain how the Treasury was getting along in the consideration of the question of the posted rate, and that Mr. Wiggins replied that the Treasury had made considerable progress and that he was going to see Secretary Snyder immediately and would want to see Mr. Sproul during the day. As a result of that conversation, Mr. Sproul said, it was arranged that Mr. Wiggins would come over for lunch informally with members of the executive committee today at which time he would discuss the matter further and possibly suggest some variation of the proposal as outlined in the memorandum

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presented at the Treasury on April 18, 1947.

Mr. Sproul's statement was followed by a discussion of problems of procedure in connection with direct exchange by the twelve Federal Reserve Banks of maturing bills for new bills and of the steps taken by the Federal Reserve Bank of New York this week to have bills available for sale to the original seller in the event he should exercise his option to repurchase bills between the date of tender and the maturity date of the bills.

In that connection it was stated that on April 25 and 28, 1947, approval was given by members of the executive committee who were available to wires to the Presidents of all of the Federal Reserve Banks stating that (1) the Manager of the System Account would advise the individual Federal Reserve Banks the price that should be bid in connection with tenders of maturing bills in exchange for new bills, (2) the action taken by the full Committee on April 24 as set forth in the wire sent to the Presidents on that date contemplated that tenders would be made by each Federal Reserve Bank in an amount equal to the amount of maturing bills held by it, and that that procedure should be followed by each Bank, (3) the question of how long the existing procedure should be continued under which each Federal Reserve Bank would tender maturing bills in exchange for new bills would be considered at the meeting of the executive committee on

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May 2, 1947, and (4) it should be understood that sellers who sold bills to a Federal Reserve Bank prior to April 25, 1947, might repurchase bills of like amount and maturity at any time before the maturity of the bills and that the direction issued on April 24, 1947, limited the period of option only as to option bills purchased by Federal Reserve Banks on or after April 25, 1947.

Upon motion duly made and seconded, and by unanimous vote, the actions of the members of the executive committee as outlined above were approved, ratified, and confirmed.

Mr. Sproul suggested that it would improve and simplify the handling of tenders of maturing bills for new bills if the maturing bills were transferred to the System open market account and a single tender made of all maturing System bills for new bills. At Mr. Sproul's request Mr. Rouse read a memorandum setting forth the procedure that might be followed in connection with such a transfer and there was a discussion of the procedure and how it should be put into effect.

In response to an inquiry from Mr. Sproul of Mr. Sneed, who had been considering the mechanics of such a procedure, the latter said he thought the suggested procedure was a logical one and should be put into effect.

It was the consensus of the members present that such a step would be desirable for the reasons set forth in the memorandum read

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by Mr. Rouse.

At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, it was agreed that the members of the full Committee who were not members of the executive committee should be advised that the members of the executive committee favored the adoption of a plan substantially as outlined below, and that it was recommended that the members of the full Committee authorize the issuance of a direction by the full Committee to the twelve Federal Reserve Banks putting the plan into effect immediately:

On the morning of the closing day for the receipt of tenders for new Treasury bills (generally Monday), each Federal Reserve Bank will send advice to reach the Manager of the System open market account, not later than one p.m. (on Monday, May 5, not later than 2 p.m.) New York time, the amount of all maturing bills subject to the option and the amount of all maturing bills not subject to the option held in the Bank's option account, which will be transferred at par on the maturity date of the bills (generally Thursday) to the System open market account. Bills acquired on May 1 in exchange for maturing bills will, as a separate transaction, be transferred to System account at book value on Wednesday, May 7, and payment therefor will be made through inter-district settlement fund. With respect to maturing Treasury bills sold to any Federal Reserve Bank prior to April 25, 1947, for which the seller still retains the option to repurchase at any time before maturity, the Federal Reserve Bank will honor any request by the seller to repurchase such bills and immediately advise the Manager of the System open market account the amount of bills repurchased by the seller. The amount of bills transferred by the Federal Reserve Bank to the System open market account on the maturity date will be reduced by the amount of bills repurchased by the seller. The Manager of the System open market account will provide for such contingencies from bills available by reason of partial allotment and by tendering for exchange a smaller amount of bills than the total holdings in the System account.

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On the maturity date of the bills transferred to the System open market account, the Federal Reserve Bank of New York will credit each other Federal Reserve Bank, through the interdistrict settlement fund, the amount of maturity value of the bills transferred with immediate advice of the amount so credited and the disposition to be made of the maturing bills (which will be cancelled and shipped to the Treasury for redemption or in settlement for allotment on exchange tender in New York for the System open market account, and the Federal Reserve Bank of New York will furnish the other Federal Reserve Banks with shipment numbers).

At this point Mr. Smead withdrew from the meeting.

Consideration was then given to the recommendation to be made to the Treasury with respect to further retirement of public debt, and in that connection there was read a memorandum prepared by Mr. Musgrave under date of May 1, 1947, from which it appeared that on the basis of current estimates it would be possible to retire \$600 million of bills in May and \$300 million in June and, in addition, \$1 billion of the June 1 issue of Treasury certificates.

Mr. Sproul stated that the developments in connection with the receipts and expenditures of the Treasury since April 1, 1947, had confirmed the soundness of the recommendation contained in the letter sent to the Treasury on that date, and that another letter might be sent to the Treasury recommending the retirement of additional bills in May and \$1 billion of certificates in June and stating that a further recommendation would be made early in June with respect to the retirement of June bills and July 1 certificates.

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After discussion, upon motion duly made and seconded, and by unanimous vote, the following letter to the Secretary of the Treasury was approved unanimously:

"At today's meeting the Executive Committee of the Federal Open Market Committee discussed the outlook for the Treasury's debt retirement program. The Committee is well pleased with the results of the bill retirement. In reaffirming its recommendation of April 1, the Committee suggests that the program be continued during the month of May so as to provide for total bill retirements during that month of 600 million dollars. The Committee suggests that retirement of the May 29th maturity be omitted and that 200 million dollars of bills be retired on June 5. The Committee again recommends that one billion dollars of June 1 certificates be retired.

"At its next meeting to be held early in June the Committee plans to review the situation with regard to further bill retirements as well as the certificate issue maturing on July 1."

The members of the committee were unanimously of the opinion that there was no need to enlarge the existing authority of the Federal Reserve Bank of New York to execute transactions for the System account, but that, in view of the authority granted by the full Committee for the direct exchange of maturing Treasury bills for new bills, the direction issued to the Bank should exempt from the limitation contained in paragraph (1) thereof bills exchanged at maturity and bills taken in exchange for maturing bills.

Thereupon upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York until otherwise directed by the executive committee,

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(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, as may be necessary in the practical administration of the account or for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury issuing rates of $7/8$ per cent for one-year certificates and $2-1/2$ per cent for 27-year bonds restricted as to ownership; provided (a) that the total amount of securities in the account at the close of March 1, 1947, shall not be increased or decreased by more than \$1,750,000,000 [exclusive of bills purchased outright in the market on a discount basis at the rate of $3/8$ per cent per annum, bills redeemed or exchanged at maturity, bills taken in exchange for maturing bills, and special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction], and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of March 1, 1945, and April 24, 1947, or the redemption of such bills;

(2) To purchase direct from the Treasury for the System open market account such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held in the account at any one time shall not exceed \$750,000,000; and

(3) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other purchases, sales, or exchanges for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

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

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It was stated that under the plan for meetings of the Presidents' Conference and the Federal Open Market Committee during the week of June 2, 1947, the next meeting of the executive Committee would be held at 9:30 a.m. on Friday, June 6.

It was agreed unanimously that, since it might be desirable for the executive committee to meet as early as Tuesday, June 3, 1947, the next meeting of the committee should be subject to call by the Chairman.

Thereupon the meeting adjourned.

Arster Morris
Secretary.

Approved:

W. H. Harrison
Vice Chairman.