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 on Tuesday, March 1, 1949, at 10:00 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Clayton
Mr. Draper
Mr. Earhart
Mr. Eccles
Mr. Gidney
Mr. Leach
Mr. McLarin
Mr. Szymczak
Mr. Vardaman

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. John H. Williams, Associate Economist
Mr. Rouse, Manager of the System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Riefler, Assistant to the Chairman, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York

Mr. Young, alternate member of the Federal Open Market Committee

Messrs. Leedy and Gilbert, Presidents of the Federal Reserve Banks of Kansas City and Dallas, respectively

Mr. Irons, Vice President of the Federal Reserve Bank of Dallas, and Mr. Raisty, Economist of the Federal Reserve Bank of Atlanta

The Secretary reported that advices of the election for a period of one year commencing March 1, 1949, 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 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;

Hugh Leach, President of the Federal Reserve Bank of Richmond, with Joseph A. Erickson, President of the Federal Reserve Bank of Boston, 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;

W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, with Chester C. Davis, President of the Federal Reserve Bank of St. Louis, as alternate member;

C. E. Earhart, President of the Federal Reserve Bank of San Francisco, with J. N. Peyton, President of the Federal Reserve Bank of Minneapolis, as alternate member.

Upon motions duly made and seconded, and by unanimous votes, 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 28, 1950, 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. In connection with the election of Mr. Morrill, it was agreed unanimously that the by-laws of the Federal Open Market Committee, which provide that the Secretary of the Board of Governors shall be Secretary of the Committee, should not be changed but that Mr. Morrill should continue to serve as Secretary notwithstanding the applicable provision of the by-laws:

Thomas B. McCabe, Chairman
Allan Sproul, Vice Chairman
Chester Morrill, Secretary
S. R. Carpenter, Assistant Secretary
George B. Vest, General Counsel
Woodlief Thomas, Economist
John H. Williams, Charles W. Williams*, Donald S. Thompson, Earl L. Rauber, and Oliver P. Wheeler, Associate Economists

*Effective as of the date upon which he assumes his duties as economist at the Federal Reserve Bank of Richmond.

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 28,1950.

Mr. Sproul stated that the board of directors of the Federal Reserve Bank of New York had selected 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 motions duly made and seconded, and by unanimous votes, 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 28, 1950:

Members	Alternate Members
Marriner S. Eccles	Ernest G. Draper
James K. Vardaman, Jr.	R. M. Evans
	Lawrence Clayton (to serve in the order named as alternates for Messrs. McCabe, Eccles, and Vardaman)
Allan Sproul	Ray M. Gidney
Hugh Leach	W. S. McLarin, Jr. (to serve in the order named for Messrs. Sproul and Leach)

Reference was made to the resolution adopted by the Federal Open Market Committee on November 20, 1936, relating to the purchase and sale of cable transfers and bills of exchange and bankers acceptances payable in foreign currencies. Mr. Sproul stated that, for reasons discussed at previous meetings when the resolution was reviewed, it was desirable that the authority remain in effect.

There was unanimous agreement that no action should be taken at this time to amend or terminate the resolution of November 20, 1936.

An excerpt from the minutes of the meeting of the Committee on November 30, 1937, was then referred to in which it was stated that, since securities acquired by Federal Reserve Banks in settlement of claims account closed banks would be in such small amounts as to be unimportant from the standpoint of credit control, the Committee would interpose no objection to Federal Reserve Banks holding such securities or to the sale of such securities whenever deemed advisable by the holding bank.

Mr. Gidney expressed the view that, although authority for such transactions had not been used recently, it was desirable to continue it in effect.

> It was agreed unanimously that no action should be taken at this time to amend or terminate the authority granted at the meeting of the Federal Open Market Committee on November 30, 1937.

Attention was then called to the authority granted to Federal Reserve Banks by the executive committee of the Federal Open Market Committee at its meeting on January 20, 1948, pursuant to action taken by the Federal Open Market Committee at its meeting on December 9, 1947, with respect to repurchase agreements covering short-term Treasury obligations with dealers in United States Government securities qualified to transact business with the System open market account.

> There was a brief discussion, following which it was agreed unanimously that no action should be taken at this time to amend or terminate the authority.

During a review of developments since the last meeting of the Committee, Chairman McCabe referred to the letter sent by the executive committee to Secretary of the Treasury Snyder under date of February 4, 1949, and at his request Mr. Carpenter read portions of Secretary Snyder's reply of February 9, 1949, which was as follows:

"Reference is made to your letter of February 4, 1949, summarizing the views of the Executive Committee of the Federal Open Market Committee with respect to the problems of credit policy and debt management developed during discussions of the Committee on January 26, 1949.

"I have given careful consideration to the views of the Committee suggesting the desirability of refunding the certificates maturing March 1 into a 1-3/8% one-year certificate or a 13-month 1-3/8% note. In the light of conditions existing at this time I find myself unable to agree that the certificate maturing on March 1 should be refunded into a 1-3/8% security, and I feel that it is too early to decide what should be done in the refinancing of the certificate maturing April 1.

"It is noted that the Committee suggests that the present System policy with respect to bids for bills and purchases and sales of bills be continued. As you know, I have had some apprehension concerning the gradual rise in the bill rate, but understand that it will be the policy of the Federal Reserve to exercise a high degree of caution so as to enable the Treasury to continue the refinancing of the floating debt at the current one-year rate of 1-1/4% until such time as a different rate can be mutually agreed upon.

"With respect to a program for the redemption of maturing Treasury bills during the latter part of March and early April, I am in general agreement that Treasury bills be redeemed as the Treasury balance and market conditions permit, but I would prefer to continue the present policy of considering Treasury bills on a week-to-week basis and making our decisions accordingly.

"It seems to me we should permit more development in the present factors affecting debt management before making any substantial changes in our refunding operations or to move to higher levels for the one-year-rate. The April 1 maturity of certificates amounts to only $1 billion, or thereabouts, and there is no further maturity until June 1. In a few months we can better judge the course of events with particular reference to the legislative program which might be enacted, including the action which the Congress may take in connection with the President's recommendation for increased taxes. We will then have a much better base upon which to plan our operations covering the period from June through the balance of the year.

"In line with these views, I am reluctant at the present time to use the cash balance to retire any of the System's holdings of certificates maturing on March 1, and would prefer to have the System exchange its holdings of this maturity."

Mr. Sproul expressed the view that the last sentence of the third paragraph of Secretary Snyder's letter was not correct in that there was no commitment on the part of the System to maintain the 1-1/4 per cent rate until a different rate was agreed upon, and that, while the Committee would not undertake to change the market rate without full discussion with the Treasury, that point should be made clear to Secretary Snyder.

It was agreed unanimously that this matter should be discussed with Secretary Snyder the next time Messrs. McCabe and Sproul met with him.

In a discussion of the sale of long-term issues from the System account since the previous meeting of the Committee, Mr. Rouse referred particularly to the discussion at the meeting of the executive committee on January 26, 1949, and expressed the view that prices of restricted issues perhaps had risen a little too rapidly in recent weeks, that there might well have been somewhat larger sales from the System account in relation to demand, that there had been somewhat larger sales during the last two weeks, and that in the absence of objection such sales would be continued in order to keep prices from rising too rapidly. Because of the small System holdings of long-term bank eligible issues, he said, it would be necessary to try to have that segment of the market take care of itself.

It was the view of the members of the Committee that the procedure of selling securities as followed in recent weeks should be continued and that it would be desirable if the yield on the long-term ineligible issues could be kept from declining below 2.40 per cent.

Mr. Rouse discussed the probable effects of Treasury payments into the market and withdrawals of funds from the market during the next few weeks, and there was a review of the policy followed in the past of using war loan balances in such a manner as to keep some pressure on member bank reserve accounts. He also reported his discussions with Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, with respect to the use of war loan balances and stated that a program had been agreed upon for the next few weeks which would largely neutralize Treasury operations in the money market.

In this connection, there were distributed copies of a memorandum from Messrs. Thomas and Smith prepared under date of February 24, 1949, with respect to the Treasury cash position and the refunding program in relation to System policies. A copy of the memorandum has been placed in the Federal Open Market Committee files.

Mr. Rouse also discussed the program for retirement of maturing Treasury securities during the next several weeks, stating that the Treasury had agreed to the retirement of $400 million of the System's holdings of March 1 certificates and $600 million of market held bills in the last half of March and early April, and that these retirements would about exhaust the funds available for debt retirement during the calendar year.

Mr. Sproul said that at the meeting of the executive committee yesterday morning reference was made to the discussion at the meeting on November 30, 1948, of a possible program for the conversion of long-term Treasury debt into issues which would be so held that System support would not be necessary. He outlined the reasons why representatives of the Federal Open Market Committee and the Treasury had not met to consider the matter as contemplated at the earlier meeting of the Committee and stated that probably the matter should be taken up directly with Secretary Snyder. He also said that the executive committee agreed to recommend to the full Committee that members of the staff prepare a study of this matter which could be considered by the executive committee and recommended to the full Committee, after which, depending on the conclusions reached, it could be taken up with the Treasury at top policy level if at such time it seemed desirable.

> Following a brief discussion, it was agreed unanimously that the recommendation of the executive committee should be carried out.

Reference was then made to the proposal made at the meeting on October 4, 1948, that a study be made of the advisability of the Treasury refunding some of the long-term securities held by the System account with special short-term issues at a lower interest rate, which was also discussed at the meeting on January 4, 1949. It was stated that the committee appointed for the purpose would complete its study of the question if it seemed desirable to do so, but that the executive committee at its meeting on January 4 had agreed that the matter should be presented to the full Committee for discussion of the question whether further action should be taken.

> It was the consensus of the members present that there was no need for further study of the matter at this time.

In this connection, Mr. Rouse stated that Mr. Bartelt, Fiscal Assistant Secretary, called him a month or six weeks ago to inquire whether, if the Treasury should so desire, the System would be willing to sell approximately $500 million of long-term bonds from the System account, and if so at what price. His response, he said, was that he did not think the System would be willing to make such sales except at current market prices and that, if Mr. Bartelt felt the proposal should be pursued further, it should be presented to the executive committee or the full Committee. He added that nothing further had been heard from Mr. Bartelt on the matter.

In the ensuing discussion, Mr. Eccles suggested that consideration might be given to selling from the System account at the average cost of the securities sold.

Turning to a discussion of open market policy and recommendations to be made to the Treasury, Chairman McCabe called on the Presidents of the Federal Reserve Banks who were in attendance for their comments. Some of the Presidents expressed the view that the Committee should continue to press for an increase in the short-term rate while others felt that, in view of the fact that the Treasury was not likely to act favorably at this time on such a recommendation and in view of the uncertainties in the business outlook and the possible misinterpretation of such action, it would be preferable not to increase the rate at the present time. One of the Presidents would not recommend such an increase in connection with the April refunding, but would do so in connection with the June financing. Another suggested that holders of maturing savings bonds should be permitted to reinvest the proceeds of such bonds in new savings bonds bearing a higher rate of interest.

Following these comments Mr. Sproul said that the Committee should consider open market policy in the framework of the general credit policy of the System and in the light of changing business and credit conditions. He outlined three possibilities with respect to the economic trend, (1) the present situation might be a temporary hesitation with inflationary pressures being resumed later in the spring, (2) a healthy readjustment, or (3) the beginning of a downward spiral of deflation. While his own view was that the second possibility was the most likely, he recognized that a condition of balance could not be maintained for a long time; however, he felt that open market policy should attempt to sustain that balance as long as possible. He added that for the past period the policy of open market operations and Treasury debt management had been to exercise some restraint on credit expansion and that now consideration should be given to a change from a policy of restraint and mild pressure on the market to a policy of as near neutrality in the money market as it would be possible to achieve. Instead of trying to get a large redemption of bills each week, he said, and thereby force sales of bills to the System account, the System should try to achieve a greater exchange of bills so that banks would not be forced to sell bills. In the past it had been thought that if the Treasury were willing to move the rate on one year certificates of indebtedness to 1-3/8 or 1-1/2 per cent, the discount rate of the Federal Reserve Banks should be increased to 1-3/4 per cent. He now felt that if the Treasury should move the rate to 1-3/8 or 1-1/2 per cent, the discount rate should not be increased. He added that the objective of an increase in the short-term rate on Treasury obligations would not now be to combat inflation, but to improve the interest rate structure so as to facilitate later Treasury refundings, and to avoid the appearance of more of less permanently pegged rates at both ends of the rate pattern. On the other hand, a further increase in the discount rate, because it is more a sign or a symbol, he said, would be interpreted as an indication of an anti-inflationary policy which would be difficult to justify. Consideration should also be given, he said, to what should be done in the field of consumer instalment credit and margin requirements and the entire credit policy of the System should be consistent. He went on to say that a policy of neutrality in the monetary and credit field would leave the System free to move in either direction depending upon developments.

With respect to a change in the certificate rate he felt that the Committee should take the position that it would be desirable to increase the short-term rate in connection with the April refunding to 1-3/8 per cent. While he saw some justification for the position that the increase should not be made in April but should be deferred until the June refunding, he thought the Committee should make a firm recommendation that the rate be increased at the earlier date.

Mr. Eccles questioned whether an increase in the short-term rate would be interpreted as being consistent with a policy of neutrality and thought that it would be regarded by the market and the Treasury as indicating a policy of continued restraint. He also said that it would have been very helpful if the rate could have been increased further before the downturn occurred in the economy and that it was probably too late now to get an increase. He agreed, however, that it would be desirable to put the increase into effect if the Treasury were willing to do so.

This point was discussed, and Mr. Sproul suggested that this might be the last chance for an increase in the short-term rate and if so the System should urge it. He thought that, as long as credit was still available at low rates and there was no increase in the discount rate, it would be possible to explain an increase in the Treasury borrowing rate in terms of debt management policy and preparation for the refunding of the large maturities of Government securities in the next four years.

During the discussion, Mr. Thomas suggested that the Committee might follow a policy of maintaining the bill rate at about the present level which would shift more bills into the market from the System account and would make bills more flexible and responsive to market conditions.

Mr. Riefler was of the opinion that it would be a mistake to increase the short-term rate at this time as it would be interpreted as an anti-inflationary step. He favored a policy of encouraging the sale of certificates to the System account and of bills from the account to the market. This, he said, would permit policy in the short-term area of the market to be effected by small minor moves in bills rather than by what had come to be regarded as a major move in the form of an increase of 1/8 per cent in the certificate rate.

Mr. John H. Williams was in agreement with the views expressed by Mr. Sproul.

Several members of the Committee expressed agreement with Mr. Sproul's position.

Mr. Clayton stated that, while a good case could be made for an increase in the short-term rate from the standpoint of monetary and credit policy, he was convinced that, in view of the cessation of credit expansion and the growing opinion that the economy might be facing a depression, there would be no favorable response to a proposal to increase the short-term rate.

Mr. Eccles stated that in connection with the June refunding consideration might be given to an offering at rates which would permit the new issues to be sold at a premium so that they would not decline below par if, at a subsequent date, the short-term rate were increased.

Chairman McCabe suggested that, when he and Mr. Sproul met with Secretary Snyder again, they take the position that had been taken once or twice before that the Committee would not urge an increase in the short-term rate as strongly as it had at other times in the past, but that in view of the refunding problem facing the Treasury over the next four years and in the interest of effective debt management generally it was believed that an increase in the short-term rate would be advisable for the reasons expressed in the recent past.

In commenting on the refunding program, Mr. Rouse suggested that the members of the Committee keep an open mind as to the types of securities that might be offered in the June financing for the reason that a number of things might happen to change the decision on that point before the date arrived when that decision would have to be made.

Mr. Clayton suggested that the Treasury be advised that in the past the Committee had urged an increase in the short-term rate on the grounds that it would be an anti-inflationary measure, that it would assist in refunding the public debt, and that it would help in bringing about a more natural interest rate structure, and that, while the first reason was not now applicable, it would be of real assistance to the Treasury in its refunding program if a better interest rate structure could be brought about.

After some further discussion, the suggestions made by Chairman McCabe and Mr. Clayton were approved unanimously.

In taking this action, it was also agreed unanimously that the suggestion made by Mr. Sproul with respect to System bids for, and purchases and sales of, Treasury bills would be carried out under the authority of the general directions issued by the Federal Open Market Committee and its executive committee.

During a discussion of the direction to be issued to the executive committee to arrange for transactions for the System open market account, Mr. Rouse suggested that, while the policies of the Committee as discussed at this meeting could be carried out under the existing direction, consideration be given to changing the direction so as to make it clear that present policies are being carried out in the light of changing economic conditions. It was agreed that the change should be made, and that the amended direction should provide for the same limitations on transactions in the account as were contained in the direction issued at the meeting on November 30, 1949.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved, with the understanding that the limitations 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 changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the needs of commerce and business; 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 $2,000,000,000.

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 $1,500,000,000.

It was tentatively agreed that the next meeting of the Federal Open Market Committee would be held during the week of May 2, 1949.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Thomas B. McCabe
Chairman.