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 Monday, October 6, 1947, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Clayton
Mr. Whittemore
Mr. Gidney
Mr. Davis
Mr. Peyton

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Thompson, Stead, and John H. Williams, Associate Economists
Mr. Rouse, Manager of the System Open Market Account
Mr. Thurston, 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

Messrs. Alfred H. Williams, Young, Gilbert, and Leedy, alternate members of the Federal Open Market Committee

Messrs. Leach, McLarin, and Earhart, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 5-6, 1947, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee held on June 5 and 6, June 30, and August 6, 1947, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the action taken by the members of the Federal Open Market Committee on July 2, 1947, approving the following amended direction to the Federal Reserve Banks which discontinued the posted rate on Treasury bills issued on or after July 10, 1947, was approved, ratified, and confirmed:

Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills issued prior to July 10, 1947, that may be offered to such Banks on a discount basis at the rate of 3/8 per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller on or before the last business day preceding the closing day on which the Treasury will accept tenders of the bills for new Treasury bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account.

Upon motion duly made and seconded, and by unanimous vote, the action taken by the members of the Federal Open Market Committee on August 8, 1947, approving an amendment to the direction issued to the executive committee on June 6, 1947, to provide that transactions in the System account shall be for the purpose of supporting the current issuing rate on Treasury certificates instead of an issuing rate of 7/8 per cent, was approved, ratified, and confirmed. The direction as revised read as follows:

The executive committee be 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 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 current issuing rate for certificates and 2-1/2 per cent for 27-year bonds restricted as to ownership; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) maturing bills transferred to the System account from the option accounts of the Federal Reserve Banks pursuant to the direction issued by the Federal Open Market Committee on May 5, 1947, 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, and bills taken in exchange for maturing bills, and (2) 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 be 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 amount of such certificates held in the account at any one time shall not exceed $1,500,000,000.

Upon motion duly made and seconded, and by unanimous vote, the action of the Federal Open Market Committee on September 4, 1947, increasing from $2 billion to $2.75 billion the authority of the executive committee contained in the first paragraph of the direction issued at the meeting of the full Committee on June 6 and amended on August 8, 1947, was approved, ratified, and confirmed.

Mr. Rouse presented, and read the important parts of, a report on open market operations prepared by the Federal Reserve Bank of New York covering the period from June 5 to October 1, 1947, inclusive. He also presented a supplementary report covering transactions on October 2 and 3, 1947. Copies of these reports have been placed in the files of the Federal Open Market Committee.

Following a brief discussion of the reports, upon motion duly made and seconded and by unanimous vote, the transactions in the System account for the period June 4,to October 3, 1947, inclusive, were approved, ratified, and confirmed.

Before this meeting there had been brought to the attention of each member of the Committee a report of examination of the System open market account as of June 27, 1947, made in connection with the

regular examination of the Federal Reserve Bank of New York and submitted by the examiner in charge for the Board of Governors. The report took no exception to the manner in which the account was handled during the period reviewed and stated that the accounting procedures, records, system of internal control, and degree of care exercised by the Federal Reserve Bank of New York in connection with the account continued to be regarded as adequate to its efficient administration.

Upon motion duly made and seconded, and by unanimous vote, the report was received and ordered filed.

Mr. Rouse stated that with the disappearance on October 2, 1947, of option bills he had contemplated suggesting that the statement of procedure for the allocation of securities in the System open market account among the Federal Reserve Banks be revised to eliminate the references to option bills. The problem had been discussed with Mr. Smead, Director of the Division of Bank Operations of the Board of Governors, who felt that the procedure might be simplified somewhat, and Mr. Rouse proposed that Mr. Smead and he review the procedure and submit a recommendation to the Committee.

Upon motion duly made and seconded and by unanimous vote, (1) the allocation of securities in the System account on October 1 was approved, ratified, and confirmed, and (2) it was agreed that Messrs. Rouse and Smead should study the procedure

and submit a report to the executive committee of the Federal Open Market Committee for consideration and recommendation to the full Committee at its next meeting.

At this time Mr. Ralph Young, Assistant Director of the Division of Research and Statistics of the Board of Governors entered the meeting.

Chairman Eccles called for the reports of the economists. Mr. Thomas read a paper on "Inflation and Credit Policy" which, after discussing the present inflationary development and commenting that the Federal Reserve System now faced the question of placing real restrictions on credit expansion, stated that there were four possible lines of policy which the System might consider for dealing with the situation:

(1) Support short-term interest rates at present levels regardless of what further credit expansion might occur;

(2) Permit a gradual further rise in short-term rates for the purpose of creating some uncertainty in the market and endeavoring to find whether credit expansion would thus be discouraged;

(3) Abandon the policy of interest rate control and adopt a policy of control of the volume of bank reserves, which would be a return to prewar procedures and might be the only possible means of actually checking further credit expansion, and under which it would be difficult to predict what would be the effect on interest rates and on the Government security market;

(4) Push more vigorously for enactment of the Board's legislative proposals, which proposals seemed to provide the only really effective solution to the present problem,

but which probably could not be enacted early enough to deal with the current rapidly developing inflationary pressures.

Mr. John H. Williams discussed the current outlook, giving special attention to the foreign situation and demands of other countries for goods produced in the United States. He stated that the present situation was not one which could be dealt with satisfactorily by use of traditional monetary controls which might operate to bring about a deflation through reducing production, employment, and pay rolls, that restrictions in the money supply should be considered, but that they did not provide the answer to the present problem which called for a further increase in output of goods.

Copies of the statements by Messrs. Thomas and Williams have been placed in the files of the Federal Open Market Committee.

Following a discussion of actions that might be taken to combat the inflationary situation, the meeting recessed and reconvened at 10:45 a.m. on October 7, 1947, with the same attendance as at the close of the session on October 6, except that Mr. Thompson and Mr. Ralph Young were not present.

Mr. Carpenter read a memorandum dated October 1, 1947, prepared in the Division of Research and Statistics of the Board of Governors on open market policies for the near future. The memorandum, a copy of which had been furnished each member of the

Committee before this meeting, reviewed current monetary factors and presented questions for System consideration together with an outline of various policies that might be followed in dealing with the present situation.

Chairman Eccles discussed briefly the effect of recent gold imports, the possible effects of a further small increase in the short-term rate, and the importance of action to stop the rapid increase in bank credit through the medium of bank loans which were expanding at a rate of about $10 billion a year, thereby adding to the money supply at a more rapid rate than could be offset by the reduction of Government debt. He also mentioned the change in the lending policies of banks resulting from the recent increase in the short-term rate and stated that, while a further increase might have some psychological effect on the banks and on their lending policies, it would not have any effect on the desire of the public to borrow from the banks and that additional steps to meet this problem would be necessary.

He went on to say that he was satisfied from a recent conversation with Under Secretary of the Treasury Wiggins that the Treasury would not be willing to concur in a further increase in the short-term rate unless it could be shown that it would have an anti-inflationary effect that would make it worth the additional

cost. It would not be possible, he said, even if Congress were sympathetic, to obtain enactment of the proposals contained in the annual reports of the Board of Governors for 1945 and 1946 in time to be of any value. He questioned the ability of the System to do much to affect the existing situation but said that there were steps that could be taken, including an effort to persuade member banks to look at their loan policies from a national credit standpoint. In this connection, he said it had been suggested that a statement be issued by the Board of Governors, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Association of Supervisors of State Banks, which would warn the banks of the danger of further credit expansion and would exercise a restraining influence on further expansion of bank credit.

During the discussion of what such a statement might contain, Chairman Eccles said that there had been discussions of the matter with representatives of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Association of Supervisors of State Banks, and that further meetings were being arranged. He added that these discussions grew out of a suggestion which he had made to Under Secretary of the Treasury Wiggins last summer that a meeting be called of representatives of the Federal bank supervisory agencies for the purpose of discussing closer

cooperation between the agencies, that such a meeting was called at which it was agreed that there should be closer and continuing cooperation, that subsequent meetings were held and that further discussions would be had looking to the issuance of a statement along the lines referred to above.

After commenting on the questions presented in the memorandum of October 1, 1947, previously referred to, Mr. Sproul stated that an overall credit policy designed to curtail the primary influences in the present period of maximum utilization of our resources would not be the answer to our problem, and that, therefore, we should first look for the specific sources of trouble and see what could be done about them. In so far as bank credit was a factor, he felt that the System would have to accommodate itself to the powers it already had and not continue to refer to powers that it might have had but which were not forthcoming, and that in formulating policy within the limits of its authority the System should (1) neither minimize the possible effectiveness of its powers nor, for reasons which he outlined, exaggerate the importance of the recent expansion of bank loans, (2) proceed as rapidly as Treasury caution would permit in the program of raising short-term rates so as to lessen the urge on the part of banks to reach out for long-term Government securities or to make risky or speculative loans, (3) adjust Federal Reserve Bank discount rates

to the change in rates on short-term Government securities, (4) take additional steps to offset the effect of the gold inflow unless such inflow resulted in bank purchases of securities from the System account or in the building up of excess reserves, (5) by public statement and by alerting the examiners exercise some influence on the side of cautious lending by banks, and (6) do whatever can be done to head off a rapid relaxation of terms and a rapid increase in the volume of credit following the expiration of consumer credit controls on November 1, 1947.

Following a further comment by Mr. Sproul that the use of selective credit controls, including consumer credit control and possibly real estate loan control, should be re-examined as one of the effective ways of dealing with the present situation, there was a general discussion of the relative effectiveness of qualitative and quantitative credit controls as anti-inflationary measures. This led to a further discussion of the actions that were available to the System and the Treasury to carry out an anti-inflationary program.

After consideration of the courses of action that were available, it was suggested that the following program be put in written form by the executive committee and discussed by Messrs. Eccles and Sproul with appropriate representatives of the Treasury. It was recognized that, in addition to action

by the Federal Open Market Committee, the program would require action by the Treasury, the Board of Governors, the Federal Reserve Banks and others, and that, to the extent that the proposed actions were within the jurisdictions of the respective agencies, the program would be regarded as a recommendation by the Federal Open Market Committee that the actions be taken:

1. Treasury cash balances would be used for the retirement of Government debt, particularly certificates and bills held in the System open market account, as a means of offsetting the effects of gold imports and exercising a tightening influence on the credit situation.

2. The short-term rate on Government securities would be increased to 1-1/8 per cent by the end of 1947. This would be accomplished by refunding the November 1 certificates into a 14-month 1-1/8 per cent note or an 11-month one per cent certificate, the December 1 certificates into a 13-month 1-1/8 per cent note, and the January 1 certificates into a 12-month 1-1/8 per cent certificate.

3. Federal Reserve Bank discount rates would be increased in keeping with the increase in the rate on short-term Government securities.

4. Reserve requirements of member banks in central reserve cities would be increased in three 2 per cent steps.

5. A statement would be issued by the Board of Governors emphasizing, in connection with the termination of Regulation W on November 1, the danger of more liberal instalment credit terms and of a further growth in the outstanding volume of consumer credit. This statement would be released by the Board, would be given wide publicity by the Federal Reserve Banks, and would be sent by the Presidents over their own signatures to all Regulation W registrants in their respective districts.

6. The Board of Governors, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Association of Supervisors of State Banks would issue a statement pointing out the danger of further over-all expansion of bank credit through the medium of bank loans and the policies that would be followed by the banking agencies in dealing with this problem in the examination of banks.

In connection with the suggestion that short-term rates be increased further, Mr. Evans stated that in the absence of further evidence of the value of such an increase he would not favor it, that the recent increase was not effective as a deterrent to borrowing from banks, and that, until action could be taken which would be effective, he could not vote to approve a further increase.

In a discussion of this point it was suggested that, while it might not be possible to show definitely what the effect of the recent increase in short-term rates had been, it had had some effect in the direction of prompting a more restrictive policy on the part of banks with respect to bank loans, and that a further increase would be an important element in an over-all program that could be presented to the Treasury as the best course of action to follow within the limits of existing powers.

Reference was made to the question of Treasury policy in connection with the refunding of maturing savings bonds and Chairman Eccles stated that at its meeting yesterday, the executive

committee voted to suggest to the full Committee that a recommendation be sent to the Treasury that individual holders of maturing savings bonds be given the option to invest funds received in payment for such bonds in (1) new series E bonds without regard to the annual limit of $3,750 or (2) a special non-marketable 10-year issue which would carry a 2-1/2 per cent coupon and be redeemable at any time after one year.

> Upon motion duly made and seconded, and by unanimous vote, it was agreed that a recommendation along the lines proposed by the executive committee should be submitted to the Treasury.
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> Upon motion duly made and seconded, the 6-point program outlined above was approved, Mr. Evans voting "no" to the extent that the program contemplated a further increase in short-term rates. In taking this action it was understood that when the statement of the program had been prepared by the executive committee it would be discussed by Messrs. Eccles and Sproul with representatives of the Treasury and, if no objection were raised by the Treasury to the portion of the program for which it would have responsibility, the various steps of the program would be initiated.

During a discussion of the program Chairman Eccles referred to the suggestion previously made that the Federal Open Market Committee prepare a statement of the situation with which it was confronted which might be submitted to the Congress by the Board as a part of its annual report. He said that such a statement

might be submitted as a special joint report by the Committee and the Board of Governors which would be sent to the Congress early in January or February and which would point out that the Congress could not expect the System, with the limited powers it now has, to prevent monetary and credit expansion.

Chairman Eccles referred to the letter addressed to Mr. Whittemore under date of July 7, 1947, by Mr. Charles E. Spencer, Jr., President of the First National Bank of Boston and a member of the Federal Advisory Council, in which it was proposed that, for the purpose of increasing the attractiveness of Treasury bills to commercial banks, the Open Market Committee each day set a buying rate on Treasury bills which would be paid that day at any Federal Reserve Bank. The letter had been submitted to the Federal Advisory Council for consideration and Chairman Eccles stated that at its meeting on September 23, 1947, at which Mr. Spencer was present, the Council unanimously recommended that the proposal be not adopted. He added that the suggestion would make Federal Reserve credit even more readily available to banks than at present, that under present conditions it was undesirable to facilitate access to such credit, and that he felt no further consideration should be given to the proposal at this time. The other members of the Committee were in agreement with this view.

In connection with the discussion of the Spencer proposal,

Chairman Eccles said that the Federal Advisory Council had stated that it understood that the Federal Reserve Bank of New York had requested banks of its district not to purchase and sell Federal funds outside the district, and that the Council was opposed to any action which implied a policy that borrowing by member banks should be confined to Federal Reserve Banks. He added that the Board had informed the Council that the matter was one of System interest because any action in that direction would affect open market and discount policy as well as the reserve position of member banks, and that if action were desirable it should be taken on a System basis and not by one of the Federal Reserve Banks acting alone. He suggested that such action might be considered as an additional point in the anti-inflationary program outlined by the Committee, but he questioned whether it would have much influence.

Mr. Sproul said that the New York Bank had not regarded this matter as one involving System credit policy but as a question of unsecured loans by member banks. He said that the practice of lending Federal funds within a city or a Federal Reserve district when the lending bank presumably would know the condition of the borrowing bank was a useful one, but that interdistrict transactions might involve some risks, and that, since

such transactions were carried on over the Federal Reserve leased wires, failure of the Reserve Bank to take a position with respect to them would, in effect, give them the Bank's blessing. Mr. Sproul went on to say that the policy of the New York Bank had not been one of prohibiting interdistrict transfers but rather, whenever the question was raised by a member bank or the Reserve Bank noticed large transactions going over the leased wires, to call attention to the possible risks involved in making unsecured loans. He added that some banks in New York were making such transfers and others were not.

There was a brief discussion of the matter and it was the consensus that it did not call for action by the Committee.

There was a discussion of the authority to be given to the executive committee to direct transactions for the System Open Market account. Mr. Sproul suggested that it would be desirable to revise the existing direction to indicate that operations were carried on for the purpose, among others, of maintaining a supply of funds in the market that would be related to the needs of commerce and business.

> After a discussion of this suggestion, upon motion duly made and seconded, and by unanimous vote, 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 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 more closely 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.

Mr. Sproul presented a memorandum addressed to him by Mr. Rouse under date of September 30, 1947, in which the latter suggested the reestablishment of the authority given by the Federal Open Market Committee to the Federal Reserve Banks in 1936 and terminated in 1945 to make temporary purchases of Government securities under resale agreements for periods of not to exceed 15 days. The reasons for the suggestion were outlined in the memorandum and were discussed at this meeting. Some of the

members of the Committee questioned whether the authority should be granted and suggested that action be deferred to afford an opportunity for further discussion.

> Upon motion duly made and seconded and by unanimous vote, it was agreed that the executive committee should study the matter and submit a recommendation at the next meeting of the full Committee.

It was tentatively agreed that the Presidents would be in Washington on December 8 and 9, 1947, and that meetings of the Federal Open Market Committee and the Presidents' Conference would be held at that time.

Thereupon the meeting adjourned.

Chester Morrill
Secretary

Approved:

M S Eccles
Chairman.