

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 Thursday, February 28, 1946, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Alfred H. Williams
Mr. Gidney
Mr. Leedy
Mr. Gilbert

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Messrs. Hardy, Irons, Sienkiewicz,
Thomas, and John H. Williams,
Associate Economists
Mr. Wyatt, General Counsel
Mr. Vest, Assistant General Counsel
Mr. Rouse, Manager of the System Open
Market Account
Messrs. Piser and Kennedy, Chief and
Assistant Chief, respectively,
of the Government Securities
Section, Division of Research
and Statistics of the Board of
Governors
Mr. Connell, General Assistant, Office
of the Secretary of the Board of
Governors

Messrs. Young and McLarin, alternate mem-
bers of the Federal Open Market Committee

Messrs. Leach, Davis, Peyton, and Clerk, Presidents
of the Federal Reserve Banks of Richmond, St.
Louis, Minneapolis, and San Francisco, re-
spectively

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Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 17, 1945, 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 on October 17 and December 5, 1945, and January 23, 1946, were approved, ratified, and confirmed.

Mr. Rouse discussed the important points in the report of open market operations, prepared by the Federal Reserve Bank of New York, covering the period from October 18, 1945, to February 23, 1946, inclusive. Copies of the report were distributed during the meeting. Mr. Rouse also reviewed briefly a supplemental report prepared by the Federal Reserve Bank of New York covering operations during the period February 25-27, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from October 18, 1945, to February 27, 1946, inclusive, were approved, ratified and confirmed.

In response to an inquiry from Mr. McKee as to the possible effects on the domestic monetary and credit situation during 1946 of the spending in this country of liquid funds in the hands of foreigners and the proceeds of foreign loans by the United States, Chairman Eccles outlined the present situation with respect to membership in the Inter-

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national Monetary Fund and the International Bank for Reconstruction and Development and the plans for the meeting in connection with the organization of the Fund and the Bank to be held in Savannah, Georgia, next month. He also referred to the hearings which were to begin on March 5, 1946, on the British loan and stated that the prospects for the approval of the loan by Congress were improving. While the British loan was essential to the successful establishment of the Bretton Woods organizations, he thought that the effects of the loan on the domestic situation would not be very great as it would not involve immediate purchases of goods in this country and the funds would be spent over a period of years. He also said that there had recently been prepared by the Board's staff a statement entitled "Repercussions on Reserve System of Bretton Woods Institutions", and that copies of the memorandum would be given to the Presidents of all of the Reserve Banks. Copies of the memorandum were distributed during the meeting and a copy has been placed in the files of the Federal Open Market Committee.

Chairman Eccles went on to say that it was expected that a report prepared by the National Advisory Council with respect to foreign credits other than the British loan would be submitted by the President shortly. He added that the report would indicate to Congress that the additional loans contemplated would be comparatively small in total amount through the fiscal year 1947 and that the loans would be made through the Import-Export Bank. The total of the loans, he said, would be small so far as their effect on the domestic picture was concerned, and gold imports and foreign credits made available by the International Bank

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probably would be of much greater importance in their effect on our monetary and credit situation.

In a further comment, Chairman Eccles said that another factor that might become of some importance in our market was the freedom with which foreign balances could be transferred between the Federal Reserve Banks and private banks, that this could be a disturbing element in carrying out the System's credit policies, that with the closer relationships with foreign central banks that might follow the establishment of the Bretton Woods organizations it might be possible to solve this problem, and that he did not think there should be any request for legislation until the results of the operations under the Bretton Woods organizations could be determined.

Before this meeting each member of the Committee had received a copy of the report of examination submitted by the examiner in charge for the Board of Governors covering the examination of the System open market account as of November 17, 1945, made in connection with the regular examination of the Federal Reserve Bank of New York. The report contained no criticisms or recommendations:

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

Chairman Eccles and Mr. Sproul reviewed the matters which had been discussed by the executive committee since the last meeting of the full Committee as well as the discussion with the Secretary of the Treasury and members of his staff on January 30, 1946, at which time there was

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submitted to the Treasury a memorandum which, while not adopted by the executive committee, could be used as a basis for discussion and which set forth a four-point program providing for (1) the elimination of the preferential discount rate, (2) reduction in the volume of outstanding Treasury bills and the discontinuance of the posted rate, (3) a program over the next few months for the retirement of public debt, and (4) legislation to require banks to hold specified amounts of short-term Government securities.

Chairman Eccles read the memorandum above referred to and there was discussion of the proposals contained therein, during which Mr. Sproul made a statement of the extent to which he had been in disagreement with the proposals.

Mr. Flanders, an alternate member of the Committee, joined the meeting during the discussion.

Chairman Eccles referred to a memorandum prepared by Mr. Vest as General Attorney for the Board under date of January 23, 1946, with respect to the independent responsibilities of the System in the credit field and stated that there was no question but that the System did have a responsibility for independent action. It was the Chairman's opinion that the System had ample authority to deal with the existing situation by actions which would increase rates, but that in view of the vastly different conditions existing at the present time which were not contemplated when the authority was given, action by the System to increase rates would be entirely unjustified. He felt that the Board of Governors

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as the agent of Congress had no other choice than to report to the Congress that the powers of the System were inadequate to cope with the existing situation, other than by an increase in rates, and what the alternatives might be.

There was a further discussion of certain of the matters referred to by Messrs. Eccles and Sproul in their views, after which the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. Steeles
Chairman.