

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 Thursday, June 5, 1947, at 2:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Draper
Mr. Davis
Mr. Szymczak (alternate for Mr. Vardaman)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager of the System Open
Market Account
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
May 2, 1947, were approved.

Mr. Rouse submitted a report prepared by the Federal Reserve Bank of New York covering open market operations for the System open market account for the period from May 2 to June 3, 1947, inclusive. He also reported on transactions for the System account on June 4, 1947.

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 May 2 to June 4, 1947,
were approved, ratified, and confirmed.

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Mr. Musgrave stated that Mr. Bartelt had called on the telephone to say that he would appreciate it if the Federal Open Market Committee could submit its views with respect to the debt retirement program for July to reach the Treasury, if possible, by tomorrow afternoon. In this connection there were distributed to those present copies of a memorandum prepared by Mr. Musgrave under date of June 6, 1947, under the title "Financing outlook". It was agreed that the memorandum should be read at the meeting of the full Committee with the thought that a letter expressing the views of the Committee with respect to debt retirement during July would be sent to the Treasury tomorrow.

Mr. Rouse inquired whether the executive committee wished to consider a recommendation to the Treasury that the existing issues of Treasury certificates be consolidated, as they mature, into quarterly issues. He said that the primary purpose of such a consolidation would be to provide sufficient interval between refunding dates to allow the Treasury to take stock of market reactions to yield deviations and to allow the market to adjust itself satisfactorily to such deviations. In order to do this, he said, it would be necessary to adopt a program under which certificates issued to replace three consecutive issues of maturing certificates would mature on the same date. He said that this might be done so that no outstanding issue at the time of the third consecutive offering would have a maturity of longer than nine months,

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and if, at that time, it were decided to increase the certificate rate, such action could be taken without causing outstanding issues of certificates to sell below par. Mr. Rouse added that he had mentioned this suggestion to Mr. Bartelt at lunch today, but that the latter had not indicated whether he would favor it. Mr. Rouse made the further comment that he had not been able to work out all of the details of such a program and that he would not want to make a recommendation to the Treasury until that had been done, but that he felt the proposal was worthy of consideration.

In the discussion which ensued Mr. Thomas suggested that it might be desirable to refund the July issue of certificates with a one year certificate, the August issue with an eleven-month maturity, and the September issue with a ten-month maturity so that if, in connection with the October maturity, it was decided to increase the rate to one per cent, that could be done without causing the outstanding maturities to drop below par.

It was agreed that Mr. Rouse's suggestion should be discussed at the meeting of the full Committee.

Reference was made to recent informal discussions with representatives of the Treasury with respect to the elimination of the posted rate on Treasury bills. Chairman Eccles stated that recently he stated to Under Secretary of the Treasury Wiggins the reasons why action should

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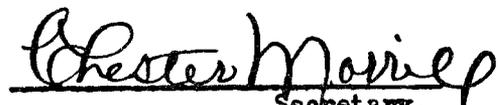
be taken as soon as possible, but that he was satisfied that no indication would be received from the Treasury until after the first of July as to what the Treasury attitude would be. He felt, however, that, since the decision was a responsibility of the Federal Open Market Committee, the matter should not be allowed to wait too long, particularly since the system by fixing an interest rate on Federal Reserve notes had removed a principal objection to "unpegging" the bill rate.

In connection with the program for the refunding of the notes and bonds maturing in the latter part of 1947, Chairman Eccles stated that he would strongly advise against the issuance of a six-year 1-1/2 per cent obligation, as had been proposed, because that would immediately establish rights in the maturing securities and would tend to freeze existing rates which should be avoided at this time.

After a brief discussion of this point the meeting recessed to reconvene following the meeting of the Federal Open Market Committee.

Approved:


Chairman.


Secretary.