

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, November 15, 1948, at 10:10 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Clayton
Mr. Draper
Mr. Eccles
Mr. Evans
Mr. Gilbert
Mr. Leedy
Mr. Szymczak
Mr. Vardaman
Mr. Williams
Mr. Young

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager, 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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on October 4, 1948, were approved.

Mr. Rouse then read a report of open market operations prepared by the Federal Reserve Bank of New York covering the period from October 4, 1948, to November 10, 1948, inclusive. He also submitted a report of operations on November 12, 1948 (November 11 was a holiday), and there was a brief discussion of the reports, copies of which have been placed in the files of the Federal Open Market Committee.

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Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period October 3, 1948, to November 12, 1948, inclusive, were approved, ratified, and confirmed.

Chairman McCabe stated that he and Mr. Sproul (who was ill and could not attend this meeting of the Federal Open Market Committee) called on Secretary of the Treasury Snyder on October 13, 1948, to deliver the letter prepared in accordance with the action at the meeting of the Federal Open Market Committee on October 4, that they conferred with Secretary Snyder together subsequently to discuss the matter further, and that he (Chairman McCabe) called on the Secretary alone last Wednesday, November 10, 1948, at which time Mr. Sproul could not be present.

At the meeting on October 13, Chairman McCabe said, there was a general review of the situation and he and Mr. Sproul amplified the views of the Open Market Committee as outlined in the Committee's letter. He went on to say that Secretary Snyder said at the first meeting that he wanted to take the matter under advisement, that at the second meeting the Secretary showed a sympathetic interest in the recommendations of the Committee, but that at the conference last Wednesday he stated that he had come to the definite conclusion in his own mind, because of the hesitation shown in the market since the National election on November 2, that it would be a mistake to increase bill and certificate rates until

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there was an opportunity to see what effect the drop in securities prices would have and what the trend in the economic picture would be.

Chairman McCabe added that Secretary Snyder wanted to announce immediately that there would be no change in short-term rates in connection with December and January refunding operations and that the \$571 million issue of bonds maturing on December 15, 1948, and the certificates and notes maturing on January 1, 1949, would be refunded with a one-year 1-1/4 per cent certificate. In addition, he wanted to keep the bill rate from rising above 1.15 per cent. Chairman McCabe stated that the reason given by the Secretary for the proposed announcement was that there had been so much talk in the market about an increase in the short-term rate that he felt it was time to bring some equilibrium into the market and get the thing settled now, and that when the Treasury had made up its mind he felt it was best to make the announcement immediately so as to prevent any leaks.

Chairman McCabe stated that he protested vigorously the making of an announcement at this time and restated, as strongly as he could, the position of the Committee with respect to an increase in the short-term rate, adding that, in spite of conditions in the stock market hesitation on the part of business, and the fact that some bankers felt no action should be taken to increase

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rates at this time, there were continuing inflationary pressures which called for an increase in the rate as suggested by the Committee. At the end of the discussion, Chairman McCabe said, Secretary Snyder consented to withhold the proposed announcement until after this meeting of the Federal Open Market Committee.

Chairman McCabe said that he had talked with Mr. Sproul twice from Secretary Snyder's office last Wednesday and that Mr. Sproul agreed with the views outlined by Chairman McCabe, with the suggestion that the matter be discussed by the Committee, and, if the Committee agreed, that it try to persuade the Secretary to postpone the announcement.

In the ensuing discussion, Mr. Eccles stated that the situation had changed materially since the meeting of the Federal Open Market Committee on October 4, 1948, and that the economists might discuss, in the light of the current situation, the proposal that the short-term rate be increased.

Mr. Riefler stated that the election had shocked those who made investment decisions and they were making no new commitments, that if the condition continued there could be a recession, but that he would be skeptical as to how far it could go because basic demands continued large, public utilities would continue to expand in response to demand, and the military program would be larger than now expected. However, in view of the changed situation, he felt

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that a longer term appraisal of Treasury debt management and financing policies would be in order.

Mr. Thomas stated that the reason for wanting to raise the short-term interest rate was that the present rate structure was artificial and unreasonable in a period of great activity or in a period of strong demand for funds, and that as long as the present wide spread between long-term and short-term yields continued under existing conditions the System would be faced with the necessity of supporting the market for long-term bonds at times when it did not wish to be bound to give support. He felt it would have been better if the short-term rate had been increased earlier as a move in the direction of desirable greater flexibility in the short-term market, and encouraging holders of liquid funds to put these funds in short-term issues.

As to the basic forces operating in the economy, he pointed to the military program, foreign demands for American goods, and the domestic situation, in which there was a high level of unsatisfied demand, and stated that in his opinion there was a strong likelihood that there would be a period of hesitation which could be followed by an inflationary condition which would be stronger than before, and which could end in a severe depression. In this situation, he felt that a continued restrictive policy would be called for.

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In connection with Mr. Thomas' remarks, reference was made to memoranda on the Outlook for Bank Reserves and Treasury Financing and Current Money Market Developments, dated November 5 and 12, 1948, respectively, copies of which have been placed in the files of the Federal Open Market Committee.

In response to a request from Chairman McCabe, Mr. Rouse discussed possible conditions in the Government securities market and what might be done in the System open market account to meet changing conditions.

There followed a discussion of what should be said to Secretary Snyder when Chairman McCabe met with him again and there was agreement that the announcement of the December and January refunding should be deferred. It was also agreed that a draft of letter to Secretary Snyder should be prepared by Messrs. Morrill, Thomas, Riefler, and Rouse for consideration by the Committee after luncheon.

Thereupon, the meeting recessed and reconvened at 3:15 p.m. with the same attendance as at the morning session, except that Mr. Thomas was not present.

Mr. Carpenter read the draft of letter to the Treasury prepared in accordance with the understanding at the morning session.

The draft was discussed and revised and, upon motion duly made and seconded, and by unanimous vote, was approved in the following form, with the understanding that, if possible, Chairman McCabe would deliver it to Secretary Snyder this afternoon:

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"In a meeting of the Federal Open Market Committee today I reviewed the informal discussions which we have had with you since my letter of October 13, 1948, outlining the views and recommendations of the Federal Open Market Committee with respect to Treasury debt management and Federal Reserve open market policies. While Mr. Sproul was not able to attend today's meeting, because of illness, I have discussed these matters with him and he concurs in the views expressed in this letter.

"It is the opinion of the Committee that, notwithstanding the recent slackening in the public's sales of bonds to the Federal Reserve and some evidences of hesitation in business plans and commitments, the basic forces in the credit situation and the necessity for flexibility in Federal Reserve open market operations continue unchanged.

"You have indicated a desire to make an immediate announcement of the December and January refunding without change in rates. It is the unanimous judgment of the members of the Committee that a decision and therefore an announcement would be premature at this time for the reason that it is not now possible to forecast market conditions with sufficient accuracy to justify a conclusion. We understand that an announcement of specific rates on the securities to be issued in a refunding operation can be deferred until a date early in December. In the meantime, we will continue the present support policy and will have the benefit of market developments and can review them at the next meeting of the Federal Open Market Committee which had already been set for November 30.

"If notwithstanding this recommendation it is your decision to announce immediately a refunding on an unchanged rate basis, I can assure you that it will be the policy of the Committee, as heretofore, to support the current one-year issuing rate for Treasury certificates through the refunding period. At the same time the Committee will continue the policy stated in our letter of October 13 permitting flexibility in the Treasury bill market up to the limit imposed by the support of the current certificate rate.

"The suggestion has been made that between now and the end of the year the Treasury draw upon its balances for the purpose of continuing pressure on bank reserves. These funds would be used most effectively if the Treasury

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"were to purchase long-term securities from the System account or, in the event the System is purchasing securities in the market to support the long-term rate, if the Treasury were to purchase long-terms directly from the market. The Committee is in agreement with this suggestion and recommends its adoption by the Treasury.

"The Committee is of the opinion that it has become more necessary than ever to determine upon a comprehensive long-term program looking toward the refinancing of the public debt including the refunding of some of the outstanding debt into issues and maturities that the market will carry without undue reliance upon Federal Reserve support. We would like to discuss this matter with you at your earliest convenience."

Secretary's Note: Chairman McCabe called on Secretary Snyder on the afternoon of Monday, November 15, 1948, and later stated that the Secretary read the letter approved by the Federal Open Market Committee and expressed the view that it was an excellent letter, particularly the last paragraph with respect to a comprehensive long-term program. In the latter connection, the Secretary said he thought the staffs of the Treasury and the Open Market Committee should discuss such a program. He also said that he would like to think about the balance of the Committee's letter overnight. Chairman McCabe told Mr. Snyder that the matter had been given very careful thought at a meeting of the Federal Open Market Committee which lasted most of the day and that the Committee would sincerely hope that the Treasury would accept the Committee's recommendation. The following morning Secretary Snyder called Chairman McCabe to say that reporters had been pressing for an announcement on the refunding and that under the circumstances he saw no other course than to make the announcement. The announcement that the December and January refunding would be an offering of certificates at a 1-1/4 per cent rate was made by the Treasury on November 16, 1948.

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During the discussion of the letter set forth above, there was distributed to the representative members of the Committee a confidential memorandum prepared by members of the Board's staff under date of November 12, 1948, entitled, "A Conversion Operation for Restricted Bonds", and, at Chairman McCabe's suggestion, it was understood that prior to November 30, 1948, the date of the next meeting, the members of the Committee would send to the Secretary any views they might wish to express with respect to the proposals contained in the memorandum.

Thereupon the meeting adjourned.

Orestes Morrice
Secretary.

Approved:

Thomas B. Lee, Jr.
Chairman.