

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, D. C., on Tuesday, November 30, 1948, at 10:35 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. Rounds (alternate for Mr. Sproul)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Townsend, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Bopp, Irons, Robb, and John H. Williams, Associate Economists
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. Ralph Young, Associate Director, Division of Research and Statistics, Board of Governors
Mr. T. L. Smith, Chief, 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. Gidney, Leach, McLarin, and Earhart, alternate members of the Federal Open Market Committee

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Messrs. Davis and Peyton, Presidents of the Federal Reserve Banks of St. Louis and Minneapolis, respectively, and Mr. Willett, First Vice President of the Federal Reserve Bank of Boston.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on November 15, 1948, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions set forth in the minutes of the meeting of the executive committee of the Federal Open Market Committee held on October 4, 1948, were approved, ratified, and confirmed.

Mr. Rouse read a report of operations in the System open market account covering the period November 12 to 24, 1948, inclusive, and a supplemental report covering transactions for the period November 25 to 29, inclusive. Before presentation of these reports, there had been distributed copies of a report prepared at the Federal Reserve Bank of New York of open market operations covering the period October 4 to November 24, 1948, inclusive. Copies of the three 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 for the period November 13, 1948, to November 29, 1948, inclusive, were approved, ratified, and confirmed.

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Chairman McCabe then called upon Mr. Thomas, who reviewed the background of public debt management and Federal Reserve policy and discussed the problems now confronting the Federal Open Market Committee with respect to policies to be followed in the future. During the course of his discussion, Mr. Thomas stated that the alternatives available to the Committee were:

To continue the past policy of rigid support of a fixed pattern of rates which would make the economy highly susceptible to unrestricted inflation in a period of full production and employment when investment demand was in excess of current savings;

To change Federal Reserve policy so as to permit a completely flexible market (Mr. Thomas added that it was questionable whether any such policy would be feasible in view of the large public debt and the attitude of holders toward the debt);

To move toward a more effective immobilization of public debt holdings so that they will not be thrown on the market.

In commenting on the last mentioned alternative, Mr. Thomas stated that various measures which might be used in such a program would include:

(a) Additional authority to raise reserve requirements of member banks. This might take the form of (1) a straight increase in requirements on the present basis, (2) a set of reserve requirements with variations as to classes of deposits, but with uniformity as to type and location of banks, (3) optional or security reserves which would permit banks to hold reserves in the form of earning

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assets and thus help to maintain earnings, and (4) payment of interest by the Federal Reserve Banks on a part of the reserve balances which banks were required to hold.

(b) Flexibility in short-term rates. He thought this was essential in a long-term program of monetary controls, not because the rates were important in themselves but because of the fact that when the System adopts a policy of decreasing member bank reserves it should not be hampered by a policy of maintaining rigid short-term rates.

(c) Adoption of a long range conversion program. The present policy of support was essentially an inflationary one, he said, and it would not be possible to solve this dilemma unless long-term restricted issues were converted into issues which would be so held that System support would not be necessary. In this connection he discussed briefly the program outlined in the memorandum of November 12, 1948, copies of which were distributed at the meeting of the Committee on November 15, 1948.

In making his remarks, Mr. Thomas referred to a memorandum on the outlook for bank reserves and Treasury financing dated November 29, 1948, and to a memorandum on the economic outlook prepared under date of November 30, 1948, for use at this meeting of the Committee. These memoranda were distributed at the meeting and copies have been placed in the files of the Federal Open Market Committee.

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Chairman McCabe referred to the memorandum dated November 12, 1948, with respect to a conversion operation for restricted bonds, stating that, in a conversation following that meeting, Secretary of the Treasury Snyder indicated an interest in having members of the Treasury staff get together informally with members of the Committee's staff to study the question with a view to the formulation of a program for consideration by the Treasury and the Committee. Chairman McCabe also said that he had asked that Messrs. Thomas, Morrill, and Riefler serve as representatives of the Committee in these discussions.

In response to a question from Chairman McCabe as to progress made by the committee appointed to study 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, Mr. Thomas stated that the committee, which was appointed following the meeting on October 4, 1948, had under consideration a draft of memorandum prepared at the Federal Reserve Bank of New York but that it did not have anything to present at this time. He also commented that this problem would be related in some respects to the conversion operation referred to above.

Chairman McCabe stated that, when he presented to Secretary Snyder the letter approved at the last meeting of the Committee, he stressed the desire of the Committee to work toward a free market

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in Treasury bills and that, therefore, it was allowing the rate to rise gradually in relation to the 1-1/4 per cent certificate rate, with the result that the System's holdings of Treasury bills had declined to about 40 per cent of the total outstanding.

Chairman McCabe referred to the present policy of supporting the longest term restricted issues at 8/32 above par and the longest term bank eligible issue at 1 point above par. He reviewed the discussion at the meeting of the executive committee of the suggestion that these premiums be eliminated, at which time it was understood that there would be further discussion of the problem at this meeting of the full Committee.

There was a discussion of the suggestion, in the course of which members of the Committee and the Presidents of the Federal Reserve Banks who were not members of the Committee expressed their views as to the policy that should be followed. It was the majority view that, for substantially the reasons stated at the meeting of the executive committee, the present policy should be continued for the time being. It was suggested in this connection, however, that it might be understood that in a period of pressure on the support price Mr. Rouse might let the support price on the bank eligibles of September 1967-1972 drop somewhat below 101 on the ground that, since the policy was to support a long-term rate of 2-1/2 per cent, that issue should not be supported at a premium.

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With that understanding, Mr. Rouse said, the issue might decline to a premium of $8/32$, at which the longest term restricted issues were being supported. The members of the Committee concurred in this understanding.

In a short discussion of the use of balances in war loan accounts, Chairman McCabe referred again to the recommendation made to the Treasury that it use funds available in its balances to purchase securities from the System account as a means of continuing pressure on member bank reserves. Instead of adopting this suggestion, he said, the Treasury was following a policy of retiring \$100 million of bills each week, a large part of which were held outside the Federal Reserve Banks.

Turning to a discussion of a possible further increase in the short-term interest rate, it was stated that this question had been settled for the December and January financing, but that it should be considered again in January in connection with the re-funding of February and March maturities. In this connection it was suggested that a meeting of the executive committee might be held around the beginning of the new year to consider recommendations that might be made to the Treasury at that time.

During this discussion, Mr. Clayton suggested that the Committee authorize the executive committee to renew the recommendations made to the Treasury at the last two meetings of the

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Committee if, in the judgment of the executive committee, such action seemed desirable before another meeting of the full Committee.

Upon motion duly made and seconded, and by unanimous vote, Mr. Clayton's suggestion was approved.

Reference was then made to the direction to be issued to the executive committee for effecting transactions in the System open market account and it was suggested that the direction issued at the meeting on October 4, 1948, be renewed.

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 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

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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, in the absence of unforeseen developments, the next meetings of the Committee would be held on February 28 and March 1, 1949.

Thereupon the meeting adjourned.

Chester Morrell
Secretary.

Approved:

Thomas B. Luce
Chairman.