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 Monday, February 28, 1949, at 9:30 a.m.

PRESENT: Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Szymczak
Mr. Williams
Mr. Vardaman (alternate for Chairman McCabe)

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

It was stated that Chairman McCabe had been delayed in Philadelphia and would not be able to attend this meeting.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on January 26, 1949, were approved.

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 January 26 to February 27, 1949, inclusive, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the following letter to the Secretary of the Treasury, prepared for Mr. Sproul's signature in accordance with the action taken at the meeting of the executive committee on January 26, 1949, and sent to Secretary Snyder under date of February 4, 1949, was approved, ratified, and confirmed:

"In the absence of Chairman McCabe I have undertaken to summarize below the views of the executive committee of the Federal Open Market Committee with respect to the problems of credit policy and debt management as discussed with you on January 26, 1949, and at a subsequent meeting of the committee on that day:

1. The Treasury program of calls on war loan accounts to offset the seasonal return flow of currency, gold imports and other factors and to maintain some pressure on bank reserves has worked satisfactorily and should be continued.

2. Available Treasury balances should be used to retire System holdings of March and April certificates and to redeem $600 million of Treasury bills during the latter part of March and early April.

3. The present System policy with respect to bids for bills and purchases and sales of bills has proved satisfactory and should be continued.

4. With the lifting of pressure from the long-term market, the most pressing consideration to be taken into account in setting the rate for the March and April certificate refundings is the desirability of holding investment interest in a steadily growing volume of short-term debt. The market will be called upon to absorb a very heavy volume of refundings in the near future. Certificates will mature in the amount of $30 billion in the coming year. In addition $1 billion of bonds will mature in June, $1.3 billion in September, and $4.4 billion in December. The proportion of the public debt falling into the shorter maturities is already large and will increase substantially. Short-term rates should be set at a level which will attract investment in these issues and avoid or minimize the inducement to 'play the pattern of rates'.

a. During recent weeks there has been growing evidence of a tendency on the part of the banks to resume this practice. The System has been called upon to purchase bills in large volume while banks were increasing their purchases of eligible long-term bonds. The System's portfolio of eligible bonds callable after 4 years now amounts to only a little over $300 million. If the practice of 'playing the pattern of rates' continues or spreads significantly, it will be impossible for the System to prevent a disorderly rate structure and to keep long-term bonds, particularly bank eligibles, from developing erratic premiums.

b. Once the System is unable to sell long-term eligible bonds to offset its acquisitions of short-term securities, excess reserves will again be created in large volume leaving the undesirable alternative, which the System would like to avoid, of imposing higher reserve requirements on member banks.

c. While in the opinion of the committee it will shortly become desirable to refund some of the maturing debt into intermediate term securities this can not be accomplished within the present structure of rates without accentuating the problem of market support and debt management.

d. A short rate that will hold market interest will permit the continued refunding of maturing long-term bonds into shorter issues without increasing the aggregate cost of servicing the market-held debt. It will also tend to avoid undue concentration of short-term debt in the portfolios of the Federal Reserve Banks.

e. Since there is to be continued support of the 2-1/2 percent long-term rate, it is essential that there be permitted a greater degree of flexibility in short-term rates. It is not possible to exercise a flexible monetary policy with two pegs—one at the short end and one at the long end—as far apart as at present.

5. All these considerations point toward the desirability of refunding the certificates maturing on March 1 into a 1-3/8 percent 1-year certificate or a 13-month 1-3/8 percent note. The latter would make possible the combination of the March and April maturities into a single issue.

"The committee's views are based on the conviction that preparation should be initiated now for the successful placement outside the Federal Reserve Banks of the large amount of financing necessary to refund issues maturing or callable through 1952. We hope you will find yourself in agreement with these views."

Reference was then made to the discussions at the meeting of the Federal Open Market Committee on November 30, 1948, and the executive committee on January 4, 1949, with respect to the development of a program for the conversion of long-term Treasury debt into issues which would be so held that System support would not be necessary. It was stated that developments had been such that representatives of the Federal Open Market Committee and the Treasury had not met to discuss the matter and that probably it would be preferable to take the matter up directly with Secretary Snyder. Upon further consideration the suggestion was made that it might be advisable for the staff members who had been studying the problem to prepare a report of their findings which could be considered by the executive committee and used as a basis for recommendation by it to the Federal Open Market Committee, after which, depending on the conclusions reached, it could be taken up with the Treasury at top policy level if it then seemed desirable.

It was agreed unanimously that such a procedure should be recommended at the meeting of the Federal Open Market Committee tomorrow, and that, in the absence of objection on the part of the Federal Open Market Committee, a study of a proposed conversion program should be prepared by Messrs. Thomas, Morrill, Riefler, and Rouse for submission to the members of the executive committee.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Allan Sproul
Vice Chairman.