

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 Tuesday, May 3, 1949, at 9:30 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Vardaman
Mr. Leach

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Rouse, Manager of the System Open Market Account
Mr. Young, Associate Director of the Division of Research and Statistics, 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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee held on February 28 and March 1, 1949, were approved.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the committee on April 29, 1949, increasing from \$1 billion to \$1.75 billion the limit on the authority of the Federal Reserve Bank of New York to reduce the total securities in the System account, as contained in the first paragraph of the direction issued by the committee at its meeting on March 1, 1949, was approved, ratified, and confirmed.

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Upon motion duly made and seconded, and by unanimous vote, transactions in the System account as reported to the members of the executive committee for the period February 28 to May 2, 1949, inclusive, were approved, ratified, and confirmed.

Before this meeting there had been distributed to the members of the Federal Open Market Committee copies of memoranda relating to (1) June refunding and possible new money borrowing by the Treasury, and (2) relative roles of nonmarketable and fully marketable issues in longer-range debt management and monetary operations. The latter memorandum had been prepared in response to the request made by the Federal Open Market Committee at its last meeting that the staff prepare a study of a program for the conversion of long-term Treasury debt. It was the thesis of the memorandum that the long-term restricted Government bond had failed to serve the purposes for which it was designed; that, in fact, it tended to accentuate the postwar inflation and presented problems in connection with debt management in deflation; that there should be no new financing in this form of security, and that future financing or refinancing should be in the forms of bank-eligible-marketable securities of not more than ten years' maturity and nonmarketable securities.

Mr. Sproul stated that the memorandum was in the nature of a progress report and that the study would be continued.

There was a discussion of what the approach should be to the refunding of short-term debt and, in this connection, reference was made to the proposal contained in the first of the two memoranda

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referred to above. It was stated that in the absence of a further increase in the rate for one-year Treasury certificates (which would be a desirable step but presumably unacceptable to the Treasury), the June 1 certificate maturity and June 15 Treasury bond maturity should be refunded into a new issue of Treasury notes due in four to five years to be priced at the market and offered at par.

Mr. Sproul stated that, while such an issue might seem to freeze the pattern of rates, the issue would have the advantage of tending to prevent any further widening of the spread between the short and the long-term rate and, if the short-term rate were raised at a later date and the issue should decline below par, it would be helpful in getting away from the position that no issue of intermediate or long-term Government securities should be permitted to go below par.

There was also a discussion of changes in economic conditions and factors affecting the Government security market and investment policies of banks in recent months and of the desirability of a refunding policy which would not increase the amount of short-term debt outstanding.

Mr. Rouse stated that the only way long-term rates on Treasury bonds could be stabilized under existing conditions would be to increase the short-term rate or issue securities in the intermediate field to relieve the pressure on intermediate and long-term issues. He also commented that the Treasury had been very cooperative in meeting the

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market situation accompanying the recent reduction in reserve requirements and had made available for sale in the market a total of \$100 million of long-term eligible bonds.

In a discussion of the suggestion recently made that some of the restricted issues be made eligible for purchase by banks, it was the consensus that this step would be undesirable since it would increase the price of restricted securities in the hands of present holders and thus would give them an unjustified "windfall", it would set a precedent for changing the terms of a contract during its life, it would fill in maturity dates with bank eligible securities without advantage to the Treasury, and it would encourage the banks to invest in longer term securities than is desirable.

Mr. Eccles asked for a discussion of the question whether the committee should recommend a further increase in the short-term rate. In the consideration of the question there was agreement with the view expressed by Mr. Sproul that an increase in the short-term rate would be preferable but that it would not be possible to get the agreement of the Treasury or to get the public to understand the increase as desirable action in the present business and credit situation.

There was also agreement with a suggestion made by Chairman McCabe that the executive committee recommend to the full Committee that the June refunding be done through the medium of a note as outlined in the memorandum on June refunding.

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Thereupon the meeting recessed to reconvene following the meeting of the full Committee.

Chester Morrie
Secretary.

Approved:

Thomas B. Le... Cole
Chairman.