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 Wednesday, April 12, 1950, at 9:35 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Vardaman
Mr. C. S. Young

Mr. Szymczak, Member of Federal Open Market Committee

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Riefler, Assistant to the Chairman, Board of Governors
Mr. Sherman, Assistant Secretary
Mr. Miller, Assistant Vice President, Federal Reserve Bank of New York
Mr. Ralph A. Young, Director, Division of Research and Statistics, Board of Governors
Mr. Youngdahl, 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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee held on March 1, 1950, were approved.

Before this meeting there had been sent to the members of the committee a report of open market operations prepared at the Federal Reserve Bank of New York covering the period from March 1 to April 6, 1950, inclusive. At this meeting Mr. Miller presented a supplementary report covering commitments executed during April 7-11, 1950, and commented on both reports. Copies of these 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 as reported to the members of the executive committee for the period March 1 to April 11, 1950, inclusive, were approved, ratified, and confirmed.

At Chairman McCabe's request, Mr. Sproul reported on developments since the last meeting of the committee substantially as follows:

> The date for this meeting was set after I called upon Secretary of the Treasury Snyder about two weeks ago, at which time Mr. Snyder indicated that he had no plans for any announcement or decision with respect to Treasury financing prior to the middle of April. He also said that Treasury estimates of its need for new funds were much the same as those of the committee. He agreed that bank credit and fiscal factors would be on the inflationary side during coming months and that financing by the Treasury should be as much as possible through nonbank channels, but he felt the amount of financing that could be done in that manner would be somewhat less than the committee previously had estimated. The discussion brought out that there would be a need to borrow some small additional amount of funds during this month and it was apparent that the Treasury had given some thought to increasing the weekly bill issues by $200 million a week. I suggested that it would be preferable to increase these issues only $100 million a week so as to keep the borrowing from banks as small as possible until it could be determined what the major needs of the Treasury and the program for financing the deficit would be. Subsequently the Treasury increased the weekly bill offerings by this amount.
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> As to the major financing and the means to be used to get nonbank funds, it was evident that Secretary Snyder himself had not considered the financing in much detail and that he was not prepared to give any indication of what he had in mind. Messrs. Haas, Director of the

Technical Staff of the Treasury, and Bartelt, Fiscal Assistant Secretary of the Treasury, were present during the discussion and I gathered that the thinking of Mr. Bartelt was in terms of liberalizing subscriptions for Series F and G bonds for both banks and nonbank investors. There were indications of some difference of opinion between the fiscal and research staffs of the Treasury as to how much money could be raised from nonbank sources and the extent to which subscriptions should be opened to commercial and savings banks. There was also a discussion of the possibility of a restricted market issue and a new issue of Series A type bonds, during which I gained the impression that the Treasury had given some, although not much, consideration to the latter but that it had given practically no consideration to the issuance of a restricted marketable bond. There seemed to be no disagreement between the views indicated by Secretary Snyder and his staff and those of the executive committee on the general objectives to be sought in the prospective financing.

Chairman McCabe referred to the difference in views expressed in the memorandum from Mr. Thomas, Economist of the Committee, dated March 27, 1950, with respect to a program of Treasury financing in 1950, and those set forth in a memorandum prepared by Messrs. Rosa and Willis of the Federal Reserve Bank of New York and addressed to Mr. Sproul under date of April 6, 1950, entitled "Cash Deficit Financing and Debt Management April-December 1950". Before this meeting members of the committee had been furnished with copies of both memoranda as well as of a memorandum dated April 6, 1950, prepared in the Board's Division of Research and Statistics giving the latest estimates of Treasury receipts, expenditures, and financing needs, and copies of a letter from Mr. Sproul to Mr. Morrill, dated April 7, 1950, discussing the problem of placement of the long-term debt.

The memorandum from Mr. Thomas stated that it would be desirable to minimize the inflationary monetary and credit effects of the Federal deficit and that it would be appropriate to finance the deficit as much as possible outside the banking system. To that end the memorandum suggested, as a basis for discussion with the Treasury, a program of financing which would be aimed at holding unchanged for the year the volume of Government securities in the commercial banking system and which would rest on three principal offerings: (1) opening of F and G bonds to institutional investors in May; (2) offering new medium-term notes in connection with the suggested refunding for the June certificates; (3) offering of non-marketable investment bonds to be placed on tap over the remainder of 1950 subject to formula limitations on accounts.

The memorandum prepared by Messrs. Rosa and Willis stated that a program of "flexible neutrality" would seem to be required in the new financing and refunding operations, which suggested that a maximum effort now be made to attract investable funds from nonbank sources--short of exerting extraordinary pressures on the capital markets--while so spacing the borrowing program as to permit a shift to greater bank participation should changing conditions make that desirable later in the year. It proposed a program which would include (1) an 18-19 year restricted bond for the May offering; (2) an April 1, 1952, note for the June refunding; (3) an offering in connection with the

September refunding of fully marketable bonds running 7, 8, or 10 years; (4) possibly a limited opening of subscriptions to Series F and G bonds and the offering of a Series A type 15-18 year investment bond.

In response to Chairman McCabe's comment on the differences in views expressed in these memoranda, Mr. Sproul stated that the problem was (1) to get the money when it was needed by the Treasury, (2) to get it as far as possible from nonbank investors without paying too much for it, and (3) to get the money in a way that would interfere as little as possible with the credit situation while at the same time improving the public debt structure. It was with these thoughts in mind, he said, that the New York Bank came to the view that offering a restricted bond callable in 18-19 years would have the greatest pull on nonbank money, that it would result in the smallest amount of bank credit creation, and that it would provide flexibility, in that it would make it possible to direct the program later in the year to getting more funds from banks if conditions should make that desirable. As to F and G bonds, Mr. Sproul felt that it would be difficult to find a formula for opening such subscriptions which would be in line with the present market and still get the additional money needed by the Treasury. He felt that to obtain the funds needed it would be necessary to make some direct offering of F and G issues to banks, which would be using these issues for a purpose for which they were not originally intended.

Mr. Eccles stated that, for reasons which he outlined, he could not agree on the desirability of a restricted market issue, that such an approach would be realistic only in a market in which there was much greater flexibility than was likely in the foreseeable future, and that a new restricted issue would add to the very large volume of marketable securities which would require support by the Federal Reserve. Even if the issue were desirable, he thought an 18-19 year call date was too short, that the bond should be 22-27 years, and that restricted marketable bonds should not be eligible for bank purchase at any time. He went on to suggest that the committee propose as its first recommendation for the May financing a Series A-type investment bond having a maturity of 15 years, which he felt would attract all the available investment money in the market that a marketable issue would attract. As an alternative suggestion for discussion, he would be willing to say that the committee favored, in principle, a market issue of 22-27 years maturity, which would not become eligible for bank purchase at any time, with the understanding, however, that the issue would not be supported by the System but be permitted to fluctuate in relation to the business and credit situation. In a discussion of this proposal the opinion was expressed that a restricted bond issued under the conditions suggested by Mr. Eccles would not raise the funds needed by the Treasury.

Mr. Sproul stated that in recommending an 18-23 to 19-24 year restricted bond, he had no idea of any commitment to support it at par, and that he felt such a commitment would not be necessary and certainly not desirable. He went on to say that there was a certain amount of flexibility in the market, and that until much more of the debt was taken out of the market than could now be foreseen, he did not feel the flexibility of credit operations would be materially affected by putting out a marketable issue.

Following a discussion of this point, Mr. Vardaman withdrew from the meeting stating that it was necessary for him to keep an appointment which he had made sometime before. During the remainder of the meeting Mr. Szymczak, as alternate for Mr. Vardaman, participated as a member of the executive committee.

There ensued a general discussion of the various forms that the refunding and new money issues offered by the Treasury might take during the next several months, having in mind the estimates of the need for new funds and when the funds would be required by the Treasury, the possible effectiveness of the issues in raising nonbank funds and their impact on the money market, how these programs might affect the limited flexibility now available to the System to influence money market conditions, and the extent to which the System might be expected to support various marketable issues in the interest of stability in the Government securities market.

In this connection Mr. Ralph Young commented that it was not possible to foresee at this time when there would be a return to Treasury surpluses, that the program of deficit financing established over the next several months might set the pattern for sometime in the future, and that, while there had been a determination by the System that there should be greater flexibility in its policy of maintaining orderly market conditions, there was a question whether the System was in a position to carry out a program of very wide flexibility. He felt some concern that the problem had not been fully thought through in terms of the long-run considerations involved.

Mr. Riefler suggested that if new funds were to be raised in the amounts that would be needed, without a considerable turnover in the market which would destroy the flexibility that had been achieved, the approach should be through an investment bond on a tap basis since new long-term investment money did not come into the market in amounts that would permit the raising of $3 to $3.5 billion at one time. He felt, therefore, that a long-term restricted issue should be avoided and that new nonbank financing should be done by an issue of Series A-type bonds on a tap basis, or an instalment bond such as was described in the staff memorandum presented at the meeting of the Committee on March 1, 1950.

Mr. C. S. Young stated that he had discussed the matter with several Chicago banks and that all but one of them felt that it would be desirable for the Treasury to issue a marketable bond which would be ineligible for purchase at any time by banks. He said that he felt the banks would have to furnish much of the new money needed by the Treasury in the next two or three months and that he would rather go directly to them for it, but that a 22-27 year restricted bond might be in order later on, depending on market conditions.

Chairman McCabe stated that, in view of the differing opinions set forth above, he would suggest that when he and Mr. Sproul met with Secretary Snyder today they tell him of the different views that had been expressed and suggest that another conference be held on a date to be fixed during which more concrete proposals could be discussed.

Mr. Sproul stated that he felt there were three positions which could be taken in the discussions with the Treasury, (1) the Treasury could go to the banks first with securities which would provide the funds which the Treasury would need in the immediate future; (2) the Treasury could devise a series A type bond similar to that issued in 1947 which could be issued as promptly as possible but which would not, it was generally agreed, produce all of the funds that would be needed by the Treasury between now and June, thus making it necessary for the Treasury to go to the banks for the additional cash that would be required; (3) a restricted market issue could be offered which would produce the funds which would be needed, part of which would come indirectly from the banks. He suggested that, in the conversation which he and Chairman McCabe expected to have with Secretary Snyder later today, they advise against the first alternative at this time and say that the committee was still considering the other two and would like to meet with the Secretary again in the near future to discuss the matter further.

Following a further discussion, Mr. Sproul's suggestion was approved unanimously, with the understanding that the staff would prepare a memorandum or draft a letter which could be used as a basis for further discussion of the recommendations to be made to the Treasury.

In a discussion of the direction to be issued to the Federal Reserve Bank of New York to effect transactions in the System account, it was the consensus that a renewal of the direction issued on March 1, 1950, would be desirable.

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the executive committee:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, as may be necessary, in the light of changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of 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 total amount of securities in the account at the close of

this date shall not be increased or decreased by more than $1 billion exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction;

(2) To purchase direct from the Treasury for the System open market account such amounts of special short-term certificates of indebtedness as may be necessary from 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 $750 million.

In taking this action it was understood that the limitations contained in the direction included commitments for purchases and sales of securities for the System account.

Ranges at which the Federal Reserve Bank of New York would be authorized to buy and sell bills and certificates for the System open market account were then discussed and it was agreed that no change should be made in the existing ranges.

It was also agreed that the present understandings with respect to sales of long-term securities and the replacement of maturing Treasury bills held in the System account should continue unchanged.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Thomas B. McCabe
Chairman.