

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 Wednesday, October 11, 1950, at 10:10 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Davis
Mr. Eccles
Mr. Erickson
Mr. Evans
Mr. Norton
Mr. Peyton
Mr. Powell
Mr. Szymczak
Mr. Vardaman
Mr. C. S. Young

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Langum, Neal, and Williams,
Associate Economists
Mr. Thurston, Assistant to the Board
of Governors
Mr. Sherman, Assistant Secretary, Board
of Governors
Mr. Ralph A. Young, Director, Division
of Research and Statistics, Board
of Governors
Mr. John H. Wurts, Assistant Vice Presi-
dent, Federal Reserve Bank of New York
Mr. Youngdahl, Chief, Government Finance
Section, Division of Research and
Statistics, Board of Governors
Mr. Leach, Economist, Division of Research
and Statistics, Board of Governors

Mr. Wurts presented an oral report, and there were distribu-
ted to the members of the Committee copies of a written report of
open market operations prepared at the Federal Reserve Bank of New

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York covering the period from September 28 to October 9, 1950, inclusive. Mr. Wurts also presented and commented on a written supplementary report covering commitments executed on October 10, 1950. Copies of both 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 September 27 to October 10, 1950, inclusive, were approved, ratified, and confirmed.

Messrs. Wurts and Leach commented briefly on the preliminary results of the October offering of F and G bonds.

Chairman McCabe made a statement substantially as follows:

At the end of our interview with Secretary Snyder on September 28, he told us he wanted a couple of days in which to give us the benefit of his advice. We heard nothing further from him and finally on the following Wednesday I telephoned him and made an engagement to see him Thursday afternoon, October 5, at 4:30 p.m. prior to a meeting of the executive committee later that day. I reported that conference to the executive committee as recorded in the minutes of its meeting on October 5.

The chief thing which seemed to be concerning the Secretary was the fear of the people engaged in E Bond sales that the long-term bonds might go down in price even to a point below par. This fear, he said, was having a detrimental effect on sales of E Bonds.

When he called me in accordance with his commitment to give us his views not later than October 9, he expressed himself very forcibly as being opposed to any change in short-term rates at this time, and the possible effect on the sale of savings bonds seemed to be his major reason for that position. He made that point as strongly as he could, and in a subsequent telephone conversation he has re-emphasized it. He told me this morning on the telephone that he had just returned from Pittsburgh where

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he again heard that fear expressed rather strongly. He said that he felt stronger than ever that we must do everything possible to keep the market on an even keel during the E Bond campaign.

I called him this morning, told him the Open Market Committee was meeting today, and that I would try to give the Committee his point of view. I also said that, if he so desired, I was sure the Committee would be very glad to have him come over here or we would go over there and hear anything he had to say. I said I just wanted to make sure the the Open Market Committee had the full benefit of his point of view before it acted. He said that if the Committee would like to have him come over after having met and discussed the matter he would be available. It will be for the Committee to decide whether it wishes to hear directly his point of view.

He wants to keep the market as steady as possible chiefly for the reason that I have stated. Mr. Sproul and I have told him of the various inflationary forces that are operating in the economy and we emphasized as strongly as we could the expansion of bank loans and the reasons for our wanting to put some restraint on the sale of Government securities by banks to the Federal Reserve Banks.

Mr. Sproul stated that he and Chairman McCabe had emphasized to Secretary Snyder that the thing that would determine the success of the savings bond campaign more than the quotations on market bonds would be the purchasing power of the savings bonds now coming to maturity, that is, the purchasing power of the dollar, and that this point was strongly in the minds of the public and employers who had a growing question whether they could urge their employees to purchase E Bonds when they had doubts themselves as to the future value of the dollar. Mr. Sproul also stated that the Secretary said he was not talking so much about what the prospective purchasers were thinking or

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what the employers were thinking, but he was reflecting the conversation of the persons on the savings bonds sales staff. Mr. Sproul added that he and Chairman McCabe stressed that the most effective way to assure the success of savings bonds sales was to give convincing evidence of a will to restrain inflation.

Chairman McCabe referred to the decision of the executive committee at its meeting on October 5 to delay putting into effect the instructions approved by the full Committee at its meeting on September 28 with respect to the short-term rate in view of the request by Secretary Snyder that he be given until Monday of this week to express his views. He said that he and Mr. Sproul had reported fully the position of the Secretary of not favoring a change in the short-term rate or an increase in reserve requirements, that every effort had been made to give the Secretary ample time to express his views and for the Committee to give careful consideration to his position in an attempt to reconcile the different viewpoints that had been advanced, and that the Secretary had not changed his position and the members of the executive committee felt they had no choice in the discharge of their responsibilities but to permit the short-term rate to rise, and that the question before the Committee was what action it would take in the circumstances and whether it wished to invite the Secretary over or go to the Treasury for the purpose of hearing directly what he had to say.

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The question whether the Secretary should be invited to meet with the Committee was discussed at length and each of the members of the Committee expressed his opinion. It was the consensus that, since the Secretary's position had been fully reported to the Committee and the views of the Committee had been given in detail to the Secretary by Messrs. McCabe and Sproul and inasmuch as there would be some disadvantages in departing from the established procedure for the exchange of views with the Treasury which had worked very satisfactorily in the past, Chairman McCabe should call Secretary Snyder and tell him that his views had been presented to the Committee as fully as they could but that the Committee would be quite willing to hear from him in person so that he might amplify his position if he so desired.

Chairman McCabe and Mr. Sproul then left the room to call Secretary Snyder and upon their return Chairman McCabe stated that the Secretary said that, unless the Committee wanted to ask him some specific question, he would prefer not to depart from the established procedure.

Chairman McCabe then stated that the purpose of this meeting was to consider further the decision made at the meeting of the Federal Open Market Committee on September 28. He emphasized the importance of a careful review of that action in the light of the strong feeling of the Secretary of the Treasury that the action should not be taken. He expressed the opinion that the decision of the Committee

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as to how it should proceed was one of the most important decisions it had been called upon to make. In that connection, he outlined reasons why the System could not count on support of its decision from bankers and stated that it would have to rely entirely on the soundness of its action for its ultimate support.

At the Chairman's request, the motion made by Mr. Davis and adopted at the meeting on September 28 was then read.

In response to a question whether there had been any change in the economic situation since the last meeting of the Committee which would have any bearing on its views, Mr. Thomas stated that there had been no material change since September 28, that there was always the likelihood in any situation like the present that there would be a slackening of the upward pressures for a temporary period, and that there might be a slackening or a lessening of the inflationary pressures if the consumer credit regulation were tightened and as the real estate regulation became effective. He said that he felt inflationary forces were stronger today than on August 18, 1950, when the Committee adopted its policy of restraint, but that they were no stronger than had been expected at that time. The important thing, he felt, was that existing inflationary pressures did not represent any increase in Government expenditures, that increased pressure had come from anticipation by the public of shortages of consumer goods which had caused them to increase their spending of private funds including consumer credit

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and savings. This activity, he said, was resulting in an expansion of incomes which would be added to the increased Government expenditures yet to come, and this expansion was creating the familiar results of an inflationary spiral. He felt that the danger in the situation was not that restrictions to be put into effect would be too drastic, but rather that more would be needed than were available in order to be adequate.

Chairman McCabe then called upon each member of the Committee to express his views with respect to the action to be taken by the Committee at this time. During their statements and the discussions that followed, all of the members indicated that, in the light of current and prospective economic conditions and of the policy of the Administration as announced in The Midyear Economic Report of the President with respect to reliance on fiscal and credit measures to restrain inflation, and having in mind the continuing expansion of bank loans including further expansion during the period since the action of the Committee on September 28, they saw no reason for changing the instruction given to the executive committee at the meeting of the Committee on September 28. It was also noted that the only reason given by Secretary Snyder for not going ahead with the more restrictive program was the fear that it might be unsettling to the Government securities market and might interfere with the success of savings bond sales.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously 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 current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; 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 \$4,000,000,000.

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 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 \$1,000,000,000.

Upon motion duly made and seconded, it was voted unanimously that in accordance with the policy announced by the Federal Open Market Committee and the Board of Governors on August 18, 1950, it be understood that (1) the executive committee, acting under the general direction issued at this meeting will take such action as may be necessary over such period as may be desirable to allow the market yields for Treasury securities on a one-year basis to

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move up to the highest point, not exceeding the Federal Reserve Bank discount rate of 1-3/4 per cent, which will not result in such pressure on the longest term restricted bond as will cause continuing purchases in substantial amounts of long-term bonds for the System account, (2) the longest term restricted bond will not be allowed to decline beyond a point slightly above par, and (3) an orderly market will be maintained;

That it be further understood that the foregoing motion is predicated on the understanding that as promptly as practicable in the discretion of the Board of Governors after short-term rates increased in accordance with number (1) above (but not necessarily waiting until such increase reached the highest authorized point) the Board would announce an increase in reserve requirements of all member banks by two percentage points on demand deposits and one percentage point on time deposits, to be effective at such times as the Board determined to be advisable; and

That it be further understood that a statement would be prepared setting forth fully the reasons for the Committee's views in a form satisfactory to the executive committee and the Board of Governors and suitable for the policy record.

With respect to the policy to be followed in replacement of System maturing bill holdings, it was understood that the executive committee should be guided by what would be required in the light of current conditions in the money market to carry out the general credit policy of the Federal Open Market Committee.

The Committee's Secretary raised the question whether it was necessary for the Chairman or Vice Chairman of the Committee to continue to sign the minutes of the meetings of the Committee since copies

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were sent to them as well as to other members of the Committee for review and comment prior to approval at a subsequent meeting. It was unanimously agreed that, effective following this meeting, it would no longer be necessary for the Chairman to sign the minutes, that minutes of future meetings would be signed only by the Secretary, and that the existing procedure for submitting copies to the members of the Committee for comment prior to approval would be continued.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

Thomas B. L. Cole
Chairman.