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 Friday, November 17, 1950, at 10:00 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Evans
Mr. C. S. Young
Mr. Vardaman (alternate for Mr. Eccles)

Mr. Szymczak, Member of the Federal Open Market Committee

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. 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. Leach, Economist, Division of Research and Statistics, Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee held on September 27 and 28 and October 5 and 11, 1950, were approved.

Mr. Rouse presented a report of open market operations prepared at the Federal Reserve Bank of New York covering the period from October 11 to November 15, 1950, inclusive, and a supplementary report covering commitments executed on November 16. He commented briefly on both reports, copies of which have been placed in the files of the Federal

Open Market Committee.

In the ensuing discussion, Mr. Rouse stated, in response to a question, that on the assumption that the 1-1/2 per cent one-year rate on Treasury securities would be maintained, the yield on the 1-1/4 per cent Treasury notes maturing November 1, 1951, which had reached 1.49 per cent bid, might have to be lowered which would mean a ceiling of about 1.40 per cent on Treasury bills.

Chairman McCabe stated that the market price on the longest term restricted bonds had been held very steady over a considerable period, that he was strongly of the opinion that some up and down fluctuation should be permitted in this issue, allowing the market to move lower if the movement were brought about by market conditions, and that he would not be willing to continue to hold the price firm at almost a point above par.

Mr. Sproul said that the market appeared to be moving into a situation where such action might be possible. In the recent past, he said, it has been a question as to whether such flexibility would have been possible without resulting in further substantial sales of long-term bonds to the System account.

In response to a question from Mr. Vardaman, Mr. Rouse said that banks had tended to carry some excess reserves during recent weeks in the expectation that the Board would increase reserve requirements. In addition, he said, they had concentrated their purchases of securities in bills and short-term certificates, and that a decided effect would

be apparent on prices of intermediate- and longer-term bonds if banks were willing to extend their maturities somewhat. Mr. Rouse went on to say that the tendency toward excess reserves and purchases of only short-term securities was particularly apparent just prior to the beginning of the reserve computation period for reserve and central reserve city banks last Thursday, but that with the passing of that date without an increase in reserve requirements having been announced the fear of an early increase had given way to the belief that action would be deferred at least until after the Treasury's December 15, 1950, and January 1, 1951, financing was out of the way.

Mr. Sproul stated it would not be possible to increase reserve requirements now without interfering with the Treasury refunding operation.

It was stated that sales of F and G bonds in the November 1 to 10 period had totaled only $131 million as compared with $621 million in October, but that it was expected that sales of these issues would be larger during the December offering.

> At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account as reported to the members of the executive committee for the period October 11 to November 16, 1950, inclusive, were approved, ratified, and confirmed.

Chairman McCabe stated that the principal development since the last meeting of the executive committee was the meeting of the full

Committee on October 30, 1950, at which it was decided to send a letter to Secretary of the Treasury Snyder stating the policy of the Committee, and that copies of the letter of that date had been sent to all members of the Committee and the Presidents of the Federal Reserve Banks who were not members of the Committee. He went on to say that he had received a letter from Secretary Snyder dated November 13, 1950, asking for the views of the Committee on the December and January financing of the Treasury which was the first time the Secretary had made a written request for the views of the Committee on Treasury financing.

There followed a discussion of recommendations to be made to the Treasury during which Mr. Rouse read the report presented by the Committee on Government Borrowing of the American Bankers Association to the Secretary of the Treasury at a meeting held in Washington on November 14-15, 1950. The report emphasized the need for spreading the debt both in terms of its distribution and in terms of length of maturities, with the objective of avoiding additional credit expansion on the one hand and a conversion of maturities which might prove embarrassing on the other. Specifically, the committee recommended that the December and January maturities be extended as far as feasible and suggested refunding them with a 1-7/8 per cent bond maturing in 7-8 years or an 8-10 year 2 per cent bond. The report also stated, in referring to the larger volume of Series E savings bonds maturities

starting next year, that the committee favored a general plan of automatically extending the bonds for a period of ten years on a non-callable basis, and recommended that such bonds held beyond maturity date should increase in value by 1 per cent simple interest every four months with no interest payable for a period shorter than four months. Mr. Rouse stated that there was no discussion of the merits of these recommendations with respect to refunding series E savings bonds.

Chairman McCabe referred to a memorandum on Treasury financing prepared in the offices of the Board of Governors under date of November 15, 1950, copies of which had been distributed to the members of the committee before this meeting, which suggested that, for refunding the $2.6 billion of 1-1/2 per cent bonds maturing December 15 and the $5.4 billion of 1-1/8 per cent certificates maturing January 1, 1951, medium-term issues be offered in exchange. The memorandum, after outlining the advantages of such a refunding, suggested the possibility of offering (1) 2 per cent 8-10 year bonds in exchange for the bonds maturing in December and 1-3/4 per cent notes or bonds of about 5-year maturity for the $5.4 billion of certificates maturing January 1; (2) some combination of bonds with one-year certificates or 15-month notes for the January maturity or, perhaps, both maturities; and (3) a 1-5/8 per cent note maturing April 1, 1952, for both maturing issues. The memorandum also suggested simultaneous announcement of the refundings.

A copy of the memorandum has been placed in the files of the Federal Open Market Committee.

Mr. Sproul then made a statement substantially as follows:

> First, I would like to suggest the possibility of a somewhat different approach to the Treasury than we have made at times in the past, when we have tried to crystallize our views on a specific issue or issues and suggest exactly what the Treasury ought to do. I think we should consider whether a more general approach would be desirable. That would contemplate a recommendation that the Treasury's December and January refunding should be in the intermediate area, that there are these possibilities for refunding in that area and that it is the Treasury's responsibility and prerogative to make a choice among these possibilities. We also should consider whether there is any advantage in including a reference to a one-year or 15-month issue as a part of the refunding since it may be the continuing desire of the Treasury to stay in the short-term area. It seems to me that sort of a general approach might make for better recognition of our respective roles and for better relations with the Treasury.
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> As to my views on the financing, I think a good case has been made for the intermediate financing for this refunding. I think my inclination would be for the shorter rather than the longer, that is, a 5-year or a 5-year 3-month issue. I think such an issue meets the requirements of debt management and credit policy. At the same time, I think it gets the money the Treasury needs at the lowest possible rate without sacrificing good debt management policy. A major part of such an issue is going to go into the banks and, therefore, I would keep the rate on the low side rather than the high side.
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> If there is any advantage or any disposition on the part of the Treasury to use a short issue in connection with this refunding, there are three possibilities: It could be a one-year 1-1/2 per cent issue, a 15-month 1-5/8 per cent issue, or, a one-year 1-1/4 per cent issue to be sold at 99-3/4 which would introduce a new and, I think, desirable element in that it would help get away from the idea of par on all securities.

In the course of a general discussion of the various possibilities for the refunding, during which the individual members of the committee

expressed their views, Mr. Rouse referred to the meeting of the Secretary of the Treasury with the executive committee of the Investment Bankers Association on November 9, 1950. He said that the committee advised the Secretary that the banking system was entirely too liquid, that if Federal Reserve policy was to be made effective banks would have to invest in longer-term securities, and that while a one-year 1-1/2 per cent issue would be readily accepted they thought the Treasury should issue a 5-year 1-3/4 per cent bond. The reason given for that, Mr. Rouse said, was that, in view of the upset conditions in the Government securities market over the past year, there was a good deal of reluctance on the part of investors to go beyond that period in the volume that would be required to meet the Treasury's needs.

Mr. Vardaman withdrew from the meeting at this point.

Chairman McCabe raised the question whether the views of the committee should be transmitted to the Treasury by letter. There followed a discussion on the content of such a letter and it was agreed that a recess should be taken during which a draft of letter should be prepared for the consideration of the committee.

Following the recess, a draft of letter to Secretary of the Treasury Snyder prepared for Chairman McCabe's signature was read to the committee and during a discussion a number of changes were suggested.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the letter to Secretary Snyder was approved in the following form with the understanding that

Chairman McCabe would be authorized to deliver the letter when he met with Secretary Snyder on Monday of next week or to give the views of the executive committee orally whichever in his judgment was the best course to pursue:

"As indicated in my reply to your letter of November 13, the executive committee of the Federal Open Market Committee has been meeting in Washington today to consider the request contained in your letter for our views on the December and possibly the January refunding. The committee appreciates very much this opportunity to express its views.

"We have reviewed the whole matter from the standpoint of (1) our knowledge as to the situation in the money and capital markets, (2) the needs of effective credit policies in the light of current and prospective economic developments, and (3) a long-run debt management program. In the light of these considerations, and having in mind the large proportion of the marketable debt that has been accumulating in the short area, it is our unanimous view that all or a major part of this financing should be done with intermediate securities. There are various possibilities in the 5 to 10-year area which would carry a coupon of 1-3/4%, 1-7/8%, or 2%, or a combination of two of these issues.

"While we generally favor strongly the view that the refunding should take this form, we have also given consideration to what might be done in the short-term area and believe that among the possibilities are a 1-1/4% one-year certificate which would be offered at 99-3/4, a 1-1/2% one-year certificate, or a 15-months 1-5/8% note. If one of these issues were used in the refunding it would seem to us to be desirable to offer an intermediate issue for the December maturity and a combination of a short and intermediate security for the January refunding. The objective would still be to place a major part of the securities offered in the intermediate area.

"We shall be glad to discuss with you the relative advantages of these various possibilities when we meet next Monday."

Secretary's note: The letter was delivered by Chairman McCabe during his meeting with the Secretary on Monday, November 20.

Turning to the instructions to be given to the Federal Reserve Bank of New York, it was suggested that the general direction to the New York Bank for execution of transactions for the System account be renewed with the same limitations as were contained in the existing direction.

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 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 total amount of securities in the account at the close of this date shall not be increased or decreased by more than $2 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 include commitments for purchases and sales of securities for the System account.

With respect to transactions in long-term securities for the System account, Mr. Sproul referred to the policy adopted at the meeting of the Federal Open Market Committee on October 11, 1950, at which it was understood that the price of the longest-term restricted Treasury bond would not be allowed to decline beyond a point slightly above par and that an orderly market would be maintained. He said that it appeared from the discussion today that there was general agreement that, within the limits of that policy, it would be desirable as soon as market conditions would permit to have some up and down movement in prices of long-term restricted bonds.

It was unanimously understood that, having in mind the statement in the foregoing paragraph, the New York Bank should continue to be guided in its purchases and sales of long-term securities by the understanding at the meeting of the committee on October 11, 1950, at which it was agreed that the main purpose of System policy was to avoid putting funds into the market and that purchases of bonds should seek to support this objective, that the timing and volume of bond purchases would depend on conditions and if fewer funds would be put into the market by holding at about present levels or by permitting a gradual decline of prices of the long-terms, that course should be followed, but that if, for any reason, offerings of bonds were heavy, it would be desirable to let prices decline rapidly to a point between 4/32 and 8/32 above par, and to maintain an orderly market while carrying out the above instructions.

In a discussion of the ranges within which short-term Treasury securities might be purchased and sold by the Federal Reserve Bank of New York in carrying out the general instruction of the Federal Open Market Committee, it was understood that the range would continue to be 1.30-1.49 per cent on a one-year basis on securities maturing or callable within one year, and that within the limitation of 1.49 per cent the New York Bank would be authorized to vary the rate at which it would purchase and sell Treasury bills as in its judgment may be required in the light of current conditions in the money market to carry out the general policy of the Federal Open Market Committee.

It was further understood that there should be no change at this time in the understanding that replacement of System maturing bill holdings 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.

It was also understood that the next meeting of the executive committee would be held on November 27, 1950.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.