

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, December 27, 1950, at 10:40 a.m.

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

Mr. Powell, Member, Federal Open Market Committee

Mr. Carpenter, Assistant Secretary
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Vest, General Counsel
Mr. Thurston, Assistant to the Board of Governors
Mr. Riefler, Assistant to the Chairman, Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
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. Leach, Economist, 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 November 17 and 27, 1950, were approved.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee on November 29, 1950, authorizing the release

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to the Joint Committee on the Economic Report, for publication, of tabulations of data with respect to Treasury re-funding and distribution of U. S. Government securities held by the Federal Reserve Banks, as recommended in a memorandum from Mr. Thomas dated November 24, 1950, was approved, ratified, and confirmed.

Mr. Rouse presented and commented on a report of open market operations prepared at the Federal Reserve Bank of New York covering the period from November 24 to December 22, 1950, and on a supplementary report covering commitments executed during the period December 23-26, 1950. Both reports were distributed to the members of the committee, and copies have also been placed in the files of the Federal Open Market Committee.

At this point all of the members of the staff withdrew and the committee went into executive session during which Mr. C. S. Young, member of the executive committee, joined the meeting. The members of the staff were called back into the meeting at 12:40 p.m.

There was then distributed a draft of a study of the Series E savings bond program being prepared by a System staff committee on Government finance in the light of the discussion at the meeting on March 1, 1950, together with a memorandum dated September 15, 1950, on the "Competitive Position of Series E Bonds" prepared in the offices of the Board of Governors. It was stated that the first memorandum had been distributed for comment and that some additional

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changes might result from suggestions of the staff. In a discussion of recommendations that might be made to the Treasury with respect to the Treasury savings bond program, Chairman McCabe stated that recently he made the suggestion to the Secretary of the Treasury that it would be helpful if the staffs of the Treasury and the Federal Open Market Committee could work together more closely in the discussion of the problems in which both are interested and that the Secretary responded that he would be glad to have members of his staff confer with the Committee staff to work out the details of any program that had been agreed upon by the Treasury and the Federal Open Market Committee, but that he thought the policy aspects of any program should first be determined at the policy level. Notwithstanding, Chairman McCabe said, he would suggest that when the draft of study of the Series E savings bond program referred to above had been checked, a copy be sent to Secretary Snyder with a letter stating that it had been prepared as a staff study, that it had not been considered by the Federal Open Market Committee, and that it was being furnished so that, if the Secretary desired, it could be read by members of his staff and their comments given to the staff of the Federal Open Market Committee prior to a consideration of the study and a recommendation to the Treasury by the Committee.

It was brought out during the discussion that the Treasury had had a committee working for some time on the problem of changes

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to be made in the savings bond program and that it was probable that the Treasury would make a decision on a program shortly. It was the consensus that, in these circumstances, any views that the Federal Open Market Committee may have should be sent to the Treasury as promptly as possible.

Accordingly, Chairman McCabe's suggestion was approved unanimously with the understanding that the letter sending the draft of study to the Secretary of the Treasury would state that, if the Secretary desired, members of the Committee staff would be available to discuss the matter and the Federal Open Market Committee would be glad to make definite recommendations with respect to the program.

In connection with a discussion of open market operations during the coming period, Chairman McCabe informed the committee of the action taken last week by the Board of Governors with respect to an increase in reserve requirements of member banks, and the instructions to be issued to the Federal Reserve Bank of New York with respect to transactions in the System open market account were discussed in the light of that action. Mr. Soroul stated that if reserve requirements were raised there were two possible courses of action that the Committee might follow. One would be to regard the increase in reserve requirements as a separate action which would not be permitted to bring about any change in current money market rates. The second would permit the increase in reserve requirements

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to have the effect of tightening conditions in the money market and therefore would contemplate allowing short-term rates to increase somewhat. This would require consultation with the Treasury. While under different conditions Mr. Sproul would favor the latter action, in existing circumstances including the results of the recent December and January financing, and the present market for the securities then issued, his judgment was that the committee should direct the Federal Reserve Bank of New York to conduct open market operations in such a manner as to hold money market rates at substantially existing levels during the period in which the increase in reserve requirements was being made effective.

The other members of the committee concurred with Mr. Sproul's comment and it was agreed that the existing general direction to the Federal Reserve Bank of New York to execute transactions for the System account would be renewed with that understanding.

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

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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 December 26, 1950, 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.

Mr. Sproul also suggested that no change be made at this time in the understandings set forth in the minutes of the meetings of the executive committee on November 17 and 27, 1950, with respect to (1) ranges within which short-term Treasury securities would be purchased and sold for the System account, (2) the replacement of maturing Treasury bills held in the System open market account, and (3) transactions in long-term Government securities.

This suggestion was approved unanimously.

It was agreed that, in the absence of special developments, the next meeting of the Federal Open Market Committee might be deferred

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until the end of February, and that the next meeting of the executive committee would be subject to call by the Chairman.

Thereupon the meeting adjourned.


Assistant Secretary.