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 Tuesday-Thursday, February 6-8, 1951, at 10:17 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Erickson
Mr. Evans
Mr. Norton
Mr. Peyton
Mr. Powell
Mr. Szymczak
Mr. Vardaman
Mr. C. S. Young
Mr. Gilbert (alternate member)

Mr. Carpenter, Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
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. R. 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. R. F. Leach, Economist, Division of Research and Statistics, Board of Governors

Chairman McCabe stated that the reason this meeting had been called so soon after the meeting on January 31, 1951, was because the rapid developments made it desirable to review the situation as it now existed, to give the members of the Committee the benefit of what had transpired during the past few days, and to counsel as to what the future course of action of the Committee should be. He stated that in his opinion this was a very crucial meeting, that the Committee should deliberate very carefully, and that if it should decide to issue a statement, that should be done only after most careful consideration and in the light of the circumstances as they had developed. He then referred to the executive session of the Committee on January 31, following the meeting with the President at the White House, stating that Mr. Vardaman had suggested that the executive session be held so that if there were any leaks the 12 members of the Committee could be held responsible, that he (Chairman McCabe) had made a plea to the members of the Committee not to divulge anything that had taken place at the White House or at the executive session, that as the Committee knew statements had since been released, and that as a result the Committee now found itself in a position very different from what it appeared to be when it met on the afternoon of January 31. Chairman McCabe stated that he had not divulged any information concerning the meeting at the White House and, although he had received inquiries from the press, he had responded that he had no comment to make because he considered that any conference at the White House was confidential until the President saw fit to make a statement concerning it. He went on to say that on the morning after the Committee called at the White House on January 31 the President issued a statement through his Press Secretary giving his interpretation of the meeting, that that was followed almost immediately by a Treasury spokesman interpreting what had happened at the meeting, and that late in the afternoon of that day (February 1) there had been delivered to him a letter from the President as follows:

> "I want the members of the Federal Reserve Board and the members of the Federal Open Market Committee to know how deeply I appreciate their expression of full cooperation given to me yesterday in our meeting.
>
> "As I expressed to you, I am deeply concerned over the international situation and its implications upon our economic stability.
>
> "Your assurance that you would fully support the Treasury Defense financing program, both as to refunding and new issues, is of vital importance to me. As I understand it, I have your assurance that the market on government securities will be stabilized and maintained at present levels in order to assure the successful financing requirements and to establish in the minds of the people confidence concerning government credit.
>
> "I wish you would convey to all the members of your group my warm appreciation of their cooperative attitude."

Chairman McCabe stated that because of the content of the President's letter, which he had considered to be highly confidential, he studied the matter carefully on the afternoon and evening of February 1 and the morning of February 2, and that he reached the conclusion that the best procedure would be to discuss it with the President before he communicated with the other members of the Federal Open Market Committee with the thought that he would ask the President to withdraw the letter, but that in the meantime the letter was released by the White House on Friday afternoon, February 2, before he had had a chance to talk with the President.

Chairman McCabe then referred to the discussion at the executive session of the Committee following the meeting at the White House and to the request made of Mr. Evans that he prepare a memorandum of the meeting with the President which would be checked with Mr. Sproul and sent to the other members of the Committee. He stated that Mr. Evans prepared such a memorandum and sent a copy of it to Mr. Sproul on February 1, that Mr. Sproul telephoned on Friday morning, February 2, to suggest certain changes in the memorandum, that the memorandum was read at an informal meeting of the Board of Governors on Friday morning at which a few additional suggestions were made with respect to language, and that all of the members of the Board of Governors agreed that the memorandum was an accurate record of the discussion that had taken place at the White House.

At Chairman McCabe's request, copies of the memorandum prepared by Mr. Evans as changed by Mr. Sproul and subsequently by Mr. Evans in the light of the discussion of the meeting on Friday morning, were distributed to the members of the Committee and the Secretary read the draft as set forth in the minutes of the meeting on January 31, 1951. Following the reading of the memorandum, Chairman McCabe asked the members of the Committee who lived outside Washington for their comments upon it and each of them expressed the view that the memorandum was an accurate and comprehensive record of the conference with the President.

During the ensuing discussion some minor suggestions for changes in language or content were made, Mr. Vardaman suggesting that inasmuch as there was no discussion of rates on Treasury securities at the meeting with the President, the memorandum need not state that there was no such discussion.

Mr. Sproul expressed the view that since such a discussion did not occur, it was especially important that the memorandum so state inasmuch as the letter from the President which the White House had made public indicated that he believed that the Committee had given assurance that the market for Government securities would be stabilized and maintained at present levels. He went on to say that he would prefer to have this point spelled out more fully than appeared in the memorandum but that the reference now contained in the memorandum was sufficient to meet his point. No action was taken by the Committee to change the form of the memorandum as contained in the minutes of the meeting of the Committee on January 31, 1951.

In commenting upon open market policy, Mr. C. S. Young expressed the view that the Committee should continue the policy that had been agreed upon although he felt that it would be necessary for the matter to go to Congress eventually in order to clarify the position of the Committee in its relationships with the Treasury. Mr. Young added that several individual bankers who had commented to him on the matter on the basis of press reports had indicated that they were sympathetic with the position taken by the Federal Open Market Committee, but he doubted whether banking as a group would take a position in support of the policy advocated by the Committee.

Mr. Szymczak then referred to an article that appeared in The Washington Evening Star on February 5, 1951, by Doris Fleeson, purporting to disclose information concerning the discussion at the executive session of the Committee on the afternoon of January 31 and stating how individual members voted on the question whether the Committee should continue its existing policies, and he asked Mr. C. S. Young whether Miss Fleeson had communicated with him following the meeting of the Committee with the President.

Mr. Young responded that he had never heard of Miss Fleeson until her article was brought to his attention after he reached Washington yesterday, that he had received several telephone calls from members of the press over the week end asking for comments on the meeting with the President, and that he told them he had no comments. He added that he had not reported to his Board of Directors on the meeting with the President and that so far as he knew he was the only person in Chicago who was familiar with the discussion at that conference until reports of it appeared in the press.

Mr. Vardaman stated that before the discussion went any further he wanted to state that he had been accused of having disclosed the names of officials and how they voted at the meeting, that he denied having done that, that he did not discuss the matter with Miss Fleeson until approximately 10:00 p.m. on Sunday, February 4, that she called him on the telephone at that time and read him a statement along the lines that she planned to publish, that she had the entire story at that time, that that was his first contact with her on this matter, and that he had never disclosed to Miss Fleeson or to others what took place at meetings of the Federal Open Market Committee.

Mr. Szymczak stated that the reason for the question addressed to Mr. Young was that in a discussion at a meeting of the Board earlier this morning Mr. Vardaman had suggested that Miss Fleeson might have obtained her information from Chicago or Atlanta and he wanted to know whether Mr. Young had discussed the meeting of the Open Market Committee with persons in Chicago who might have given the information to Miss Fleeson or representatives of hers.

Mr. Norton stated that he wanted to report that he had talked to Miss Fleeson on Sunday, February 4, that they met at church, that she asked him whether he agreed with the statement released by Mr. Eccles relating to the meeting at the White House, that he replied, "Not exactly," and that he did not mention the names of persons who were at the executive session of the Open Market Committee and that she did not mention any names of individuals present or votes cast at that session.

In response to an inquiry from Mr. Szymczak, Mr. Thurston stated that he received a telephone call from Miss Fleeson about 11:00 p.m., February 4, that she did not read him her statement or tell him what she was going to write, but that she did say she had the whole story and that Mr. Vardaman had suggested she call him (Mr. Thurston) and discuss it with him.

Mr. Vardaman stated that when Miss Fleeson called him earlier that evening he suggested that she telephone Mr. Thurston.

Mr. Gilbert stated that he had not known much about the release of information at the time he left Dallas inasmuch as their local papers carried very little on the matter, although he had known that, following the release of the President's letter at the White House, Mr. Eccles released part of the memorandum covering the meeting with the President. He added that he had noticed a press report that Senator Maybank had requested Senator Robertson, Chairman of the Subcommittee on Federal Reserve Matters of the Senate Banking and Currency Committee, to confer with Chairman McCabe to find out about the situation and report back.

Chairman McCabe withdrew from the meeting at this point to answer a telephone call.

Mr. Gilbert went on to say that in his judgment the Committee should continue the present policy which it had agreed upon after careful consideration, although it seemed to him that it was only a matter of time until the question would be brought before the Congress for an indication of its wishes concerning the policy that should be followed.

Mr. Erickson stated, in response to a question, that he had talked with no one other than the members of his board of directors at the Boston Bank on Monday of this week at which time he had told them generally of the discussions at the meeting of the Committee last Wednesday.

Mr. Peyton stated that he had been convinced right along that the position taken by the Open Market Committee was the correct one, that the Treasury was mistaken, and that he felt the Committee should continue with the policy as presently stated. He went on to say that he did not think resignation of members of the Committee would be proper, that if they believed in their position they should stand and defend it, that he felt the issue was one worth supporting, but that he could not be sure what the position of the new members of the Open Market Committee would be when the present representative members were succeeded by new members in March of this year. He added that he felt all members of the Committee should be in reasonable agreement and that if necessary the matter should be taken to Congress which had the power to define the position it wished to have the Committee take. Mr. Peyton added that if the country was at war the situation might be different but that the country was not at war and that he felt the policy agreed upon by the Committee should be given a try as a means of holding down further inflationary developments.

Mr. Sproul then made a statement substantially as follows:

> First, I think the record of our interview with the President as read at this meeting is fair and accurate in all its essential aspects. I think each one of us might have something we might remember that is not in there or we might suggest something that might be taken out, but I think it represents accurately what was said and the atmosphere in which it was said. I can pick out the President's reference to his Liberty Bond experience as an indication that he does not know very much about the subject. Second, looking at the content of the statement, the President said we had done a good job and he wanted us to continue. We have been doing a job since the beginning of Korea that has brought us into violent conflict with the Treasury, and we have gone ahead despite that conflict, and he said it was a

good job that we were doing and wanted us to continue. He also said he did not want to undertake to discuss details of Treasury financing; he did not want to get into a discussion of whether prices should be up a thirty-second or down a thirty-second. I think that is not talking about the rigid market the Treasury wants. Finally, when it comes to the question of issuing statements, the President said he would have no objection to our making a statement and thought it might be a good thing. That was the whole atmosphere of the conversation and the subsequent letter from the President wholly misrepresented it. I think that what goes on at a Presidential conference should not be disclosed until the President gives it out and when he does, he should give it out accurately. That was not done in the letter that was disclosed by the White House concerning our conference. For that reason I am glad that Mr. Eccles took the individual action he did in releasing our memorandum of what went on. I think, in the intolerable situation of the President's releasing a letter which was not accurate and which I think was dictated by the Treasury, that Mr. Eccles' release of the memorandum temporarily retrieved our place in the financial community and with the public. I resent, however, individual disclosure, no matter how it comes about, of what takes place in meetings of the Federal Open Market Committee. Disclosure of individual votes is wholly inexcusable and a blot on our record. Having said that, I think we should now get official again. We should quit issuing statements on individual responsbility.

Mr. Szymczak commented at this point that leaks of information do not necessarily go directly to the press, but that they might go to someone in the Treasury or elsewhere in Washington and be let out from there--intentionally or otherwise.

Mr. Vardaman commented that the leaks rarely ever come from participants in the meetings, that someone tells a friend something, that that friend tells someone else, and the story gets around.

Continuing with his statement, Mr. Sproul said substantially:

First, this Committee should make a reply to the President's letter which was addressed to the Chairman. The outline of that should be that we are sorry when he has so many other demands on his time, that he was brought into a controversy in an area where we are charged with responsibility, and that there must have been some misunderstanding.

(Mr. Sproul then read a draft of a letter along the lines he proposed.)

I would not consider this to be a public document and would not consider it something to be given to anyone else unless the President took action to give it out. I think the second thing this Committee should do is to send a letter to the Secretary of the Treasury and outline what we feel should be done following up on what we stated as a desirable policy in our letter to him on October 30, 1950.

(Mr. Sproul then read a draft of letter such as he proposed to be sent to the Secretary of the Treasury.)

Having sent such letters to the President and to the Secretary of the Treasury, I think this Committee should then consider what action it is that we are talking about. The action I would have in mind would be the previously stated policy which contemplated backing away from the premium on the longest-term bonds, which gives profits to sellers of such bonds. When the Treasury stops supporting that market, and if and when the market needs further support and we are called upon to give it, we should promptly put into effect the previously adopted policy of backing down close to par. Second, we should continue with our previously adopted policy which contemplated a further increase in the short-term rate until it is up to the discount rate. There would, of course, have to be consultation with the Treasury on the basis of the statement in our letter to the Secretary on October 30 before there would be a further increase in the short-term rate. Mr. Thomas' memorandum of January 30 states the case very well. We have a situation in which it looks as though there will be pressure on us continuously for the next few months. The availability of bank reserves is going to be a critical factor in this situation, and we should not stand there and take the securities and thus increase bank reserves at the will of the market. It is not a question of interest rates. It is a question of the availability of bank reserves.

Mr. Szymczak commented that he felt it was necessary to clarify the point just mentioned by Mr. Sproul, that comments from both the White

House and the Treasury recently had put emphasis upon fractional increases in interest rates as an anti-inflationary weapon, and that the Committee should make it clear that it was not talking about a slight increase in the short-term rate or a slight decrease in the premium on long-term bonds, but about making reserves available to the banks, upon the basis of which there is a multiple expansion of credit.

Mr. Vardaman raised the question whether thought had been given to sitting down with the President and making clear to him that it was the goal of the Committee to reduce the premium on the longest-term bonds so that they would come down to par. Mr. Sproul responded that he did not believe the letter to the President should go into that inasmuch as the President had indicated at the conference on January 31 that he did not wish to discuss details, and the purpose of the letter would be to make it unnecessary for the President to comment further on a technical matter on which he could not be expected to be informed.

Chairman McCabe rejoined the meeting at this point, and Mr. Sproul reviewed the suggestions he had made and re-read the drafts of proposed letters to the President and to the Secretary of the Treasury.

There was a general discussion of the content and purpose of the suggested letter to the President during which Mr. Vardaman stated that the suggestions made by Mr. Sproul did not contemplate any change in the policy of the Committee, that that was the crux of the matter, and that if the Committee did not tell the President what it contemplated, it was not likely to get a clarification of the situation. Mr. Vardaman also expressed the view that the Committee should tell the President that it contemplated letting bonds go down to par and holding them there.

Mr. Sproul responded that what he had in mind and what the Committee had contemplated, now and in the past, would not be destructive of the financial strength of the Government or of the country, that this assurance had been given to the President upon numerous occasions, that he questioned whether the more specific statement suggested by Mr. Vardaman would serve any useful purpose, that in his view the purpose of the letter was to relieve the President of concern for the Government's financial security in so far as operations of the Open Market Committee were related to it and to assure him he could leave it to the Committee to continue its consultations with the Secretary of the Treasury.

At Chairman McCabe's request, the Secretary read the letter addressed to the Secretary of the Treasury by the Federal Open Market Committee under date of October 30, 1950.

Mr. Norton suggested that the Committee might write a letter which would assure the President that it was cooperating in the general program that he had suggested, without going into details concerning rates and open market operations.

Mr. Sproul responded that if such a statement implied concurrence in the President's wishes as set out in the letter he had made public, it would be contrary to the views that had been expressed by the members of the Committee, that the President should never have been embarrassed by having been brought into the controversy, that the Committee was trying to get the President out of the controversy with the least possible embarrassment to him, and that in his opinion the suggestion made by Mr. Norton would only embarrass the President further. He went on to say that the Committee has the authority and the responsibility for action, and that if it acted under that authority it would provide an opportunity for the Congress to review the matter and take whatever action it believed to be desirable, whereas if the Committee went along with the program suggested by the Secretary of the Treasury on January 18, it was not likely that the Congress would take any action in connection with it.

Chairman McCabe raised a question as to the powers of the President under the Defense Production Act of 1950, particularly whether that Act gave him authority to direct the Board or the Federal Open Market Committee in its operations.

Mr. Vest stated that under the Defense Production Act of 1950 the President had the power to issue orders and regulations to carry out the purposes of the Act, and that if it came to a question whether the function of the Federal Open Market Committee was encompassed in the Defense Production Act he felt the language of the Act was not such as to indicate that it contemplated giving such authority to the President.

Chairman McCabe stated that he had hoped that the letter which the President sent to him on February 1 would not be made public because the letter sounded as though it was a directive, that it would be difficult for the President to withdraw it since it had been released, that he had tried to avoid having the issue come to a climax particularly in the press, but that since the letter had been released the weight of opinion in the financial press and with such groups as the Committee for Economic Development, the American Farm Bureau Federation, and others seemed to support the general position taken by the Federal Open Market Committee. He suggested, however, that it might be desirable again to discuss the matter with the President in the hope that he would see that there was much to be considered in the matter, that he doubted whether any written communication would accomplish much in that direction, but that it might be worth trying a letter if written in the proper tone and spirit.

Mr. Sproul stated that his suggestion for a letter was to help get the matter back on an official basis, to relieve the President of an embarrassing situation, and to make another attempt to resume negotiations with the Treasury along the lines which the Chairman had suggested to the President at their conference on the afternoon of January 31.

Mr. Eccles then made a statement substantially as follows:

> I think what we have been talking about, in part at least, is right. I think there is a way to do these things and that we have to answer the President's letter. Whether he understands it or not is not our fault; he has a staff of people who can read it for him, or he can send it to the Treasury. The question of the letter is pretty much the record of an official body. As Mr. Sproul says, a letter would get us back on an official basis.
>
> Now I, possibly being the principal cause of the situation that brought about this meeting today and kept this issue alive,

have no apologies to make. I have no regrets. I did what I think was right. If I had it to do over, I would do exactly what I did. I think under the circumstances it was the way that I could best discharge my public responsibility, the way I could best protect the position of this System, as well as to protect my own record. I regret exceedingly that the situation developed to a point where releasing what was to be a confidential document seemed to me to be absolutely essential under the circumstances. I took the entire responsibility for it myself. I purposely avoided talking with anybody or telling anybody what I was going to do, because I did not want in any way to involve anyone else. I did not act on the advice of anyone or as the result of consultations with anyone. I merely want to say that for the record.

Now it seems to me that this Committee has a public responsibility that is as important for it to discharge in trying to prevent inflation as it is that we carry out a defense program. There is going to be nothing for us to protect in this country unless we are willing to do what is necessary to protect the dollar. Our responsibility is not a minor one; it is a very great one under the conditions that exist, and if we fail, history will record that we were responsible, at least to a very great measure, in bringing about the destruction or defeat of the very system that our defense effort is being made to protect and defend.

We are not in a war. We do not now have deficit financing. The situation is not comparable in any degree with the situation that confronted us in 1941 at a time when we had a great deal of slack in the economy. We were then in a deflation with 10 million unemployed people and many idle factories and huge excess bank reserves, with practically no securities in our System portfolio and no power to increase reserve requirements. It was under those conditions that the defense program started, after there had been substantial budgetary deficits in 1938, 1939, and 1940. During those years, this Board and the Federal Open Market Committee did not object to the deficit and cheap money for that was a time when it was desirable to expand credit. It was desirable to get people to spend their savings; it was desirable to do just the opposite of what is desirable and necessary at this time.

The inflationary forces began to develop as a result of the war program, especially the very heavy deficit financing program after Pearl Harbor. Then the amount of financing was very great with deficits up to $60 billion a year which ran the public debt up from $50 to $280 billion in five years. Under those conditions, it would have been impossible to finance the wartime deficits of that size under a restrictive and tight money policy; it would have been impossible during that period to float securities on a declining and falling market. We recognized that fact.

The situation today is exactly the opposite. We have had for the last four or five years an aggregate budgetary surplus of nearly $13 billion. The inflation that has taken place and the expansion of the money supply was due largely to private financing through the commercial banking system; to the banks' ability to get reserves on which to expand credit and increase the money supply. Before Korea, we had inflation on our hands; credit was expanding in the spring even before Korea. Up to the present time there has not been a budget deficit, and the defense program has not been a factor so far as expenditures are concerned in the inflationary situation that has developed.

We can not wait to act. Action is far overdue. In retrospect, I would say, if anything, that we have been derelict in not acting sooner and more aggressively. We have failed to take as drastic and strong and aggressive action as the situation has been calling for. We have relied upon selective credit controls, a slender reed that was entirely unable to deal with the credit expansion that this Federal Reserve System has pumped into the market through its cheap money policy. I say action is long overdue. I do not think we can wait. We have a statutory responsibility, and it seems to me that under the circumstances, if we expect to discharge our responsibility, there is one thing for us to do as an agent of Congress and that is to carry out that responsibility by the use of the tools we have until we get additional authority.

You only protect the public credit by maintaining confidence in the Government and in its securities and to the extent the public will buy and hold those securities. The thing we are doing is to make it possible for the public to convert Government securities into money and to expand the money supply of this country by $7 billion in six months. We have permitted an increase in the money supply of this country by more than 8 per cent since Korea. That was not done for the purpose of carrying out our responsibilities, but for the purpose of trying to hold the interest-rate structure. It was due entirely to our efforts to carry out the demands or requests of the

Treasury.

It seems to me that this is an issue that we ought to be prepared to stand up to, as any soldier would stand up in times of great stress, and face our responsibilities to the American public. We are almost solely responsible for this inflation. It is not deficit financing that is responsible because there has been surplus in the Treasury right along; the whole question of having rationing and price controls is due to the fact that we have this monetary inflation, and this Committee is the only agency in existence that can curb and stop the growth of money.

Congress has done a good job of increasing taxes, but I do not believe we have done a good job on this question of credit. It seems to me that we should get down and face the facts today. We should not think that we are going to work this out with the Treasury; we have been trying to do so for more than a year and have not worked anything out. We no longer have time to work it out in that way. I, for one, feel that the issue has to be faced. When you think that we have bought $3-1/2 billions of Government securities since last May, during a time when the Government has had a budget surplus, which has been anti-inflationary, it is apparent that we have provided the means for the growth in the money supply, which has been directly related to the increase in cost of living and the price level.

We can not pass this responsibility; we should tell the Treasury, the President, and the Congress these facts, and do something about it. I do not believe we should be concerned about a directive from the President. He can give us a directive, that is true. If he does, certainly the responsibility is his. That is one thing. But until he does, we are giving the public the impression that we have capitulated to the extent that we do not do something about this problem. The public today is confused. They think this is nothing but a feud for power between the Treasury and the Federal Reserve. It is no such thing. We have not only the power but the responsibility to do a certain job. We know what the job is. There should be no confusion in the minds of the public with reference to where this responsibility is. It seems to me the way we can clarify this is to come out with a public statement as to what has happened, what our responsibility is, and what to do about it. If the President wants to give us a directive, that is not evidence of our capitulation. If Congress does not like what we are doing, then they can change the rules. But until they do that, we have the responsibility and the authority.

I believe we have been derelict; I think that I, as a member of this Committee, have not been as aggressive as I should have been. I think I have not made the record I should have. As I look back to 1946 and 1947, when the Treasury and a budgetary surplus and the war was over, particularly when we were having our troubles with Secretary of the Treasury Vinson, we should have taken a stronger stand. If we had had a row, I could have resigned. As I look back on it, I regret I did not take a stronger stand for obtaining substitute authority from the Congress. But until we get that authority, it is up to us to use what we have.

Chairman McCabe suggested that the Committee reach a decision as to whether a letter should be sent to the President and then take up the question of what the policy of the Committee should be.

Mr. Powell stated that he felt a letter to the President should be written, that it should make the record clear, but that he would not be in favor of a letter to the Secretary of the Treasury if it was for the purpose of discussing the Secretary's statement in New York on January 18. He would have no objection, however, to a letter to the Secretary which carried out the previous statements of the Committee to consult with him in connection with open market policies which would affect either the long-term rate or the short-term rate.

Mr. Vardaman stated that he was not in favor of another innovation, and that he would favor issuing a statement saying that the Committee would do what the President had asked and that it would take the matter to Congress for clarification.

There was a further discussion of the possible content of a letter to the President and of the policy that might be followed by the Committee, following which the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the close of the morning session.

Mr. Evans stated that he thought the Committee had to write a letter to the President or discuss the matter with him or perhaps do both. Such a letter should state the facts concerning the inflationary situation, that the Federal Reserve System was not interested in interest rates as such but that it was concerned with restricting the availability of bank reserves, and that it was greatly concerned with maintaining Government credit which, in the last analysis, would depend upon maintaining confidence in the purchasing power of the dollar. In his comments Mr. Evans referred to a memorandum which Chairman McCabe had given to Mr. C. E. Wilson, Director of the Office of Defense Mobilization, on January 16, 1951, concerning a program to combat the inflationary spiral, and, at his suggestion, the Chairman read the memorandum to Mr. Wilson, as follows:

> "In the past six months we have given top priority—and rightly so—to a reassessment of our international position, and to the development of a comprehensive military program. We have given urgent consideration to procurement problems and production problems. Now that these programs are launched, the <u>next</u> order of business must be to work out a comprehensive program for financing the defense effort and for maintaining the integrity of the dollar. Inflation is our Number One unresolved problem <u>today</u>.
>
> "The strong upsurge of prices over the past several months dramatizes the potency of current—let alone future—inflationary forces.
>
> "If it is in order to contemplate such heroic measures as a complete freeze of wages and prices across the board, is it not

"equally in order, and essential for the long-run, to initiate simultaneously emergency action on the fiscal and credit fronts? For example, an emergency tax measure--one that would jolt the country--might stop this inflation psychology in its tracks. More drastic action on selective credit controls (Regulations W and X, and margin requirements) plus emergency restrictions on loan portfolios of insurance companies, banks and other lenders would curb inflationary credit expansion. To be enacted quickly, these measures might have to be crude and should be temporary. But they would provide time to work out a more carefully evaluated program.

"No dam of wage and price controls can be expected to withstand pressures of the magnitude that are in sight. Increased incomes resulting from defense spending will be far in excess of goods available for civilian purchase. The outstanding volume of bank and other credit is more than enough to finance the entire economy even at forced draft. Fully as important is the current movement to convert liquid assets into land, equities, and commodities, the so-called 'hedge against inflation.' This movement is well underway and is gaining momentum. It feeds on itself. It will accelerate with any further rise in the inflationary spiral and will accentuate the spiral. The volume of liquid assets already outstanding is out of all proportion to the needs of the economy.

"Inflation is not inevitable.

"I suggest the Defense Mobilization Board immediately concentrate on a study of the problem of financial mobilization and inflation control. The study should be just as comprehensive as that given to the requirements of military mobilization. The problem of war finance is much more complicated and much more urgent than it was at the beginning of World War II. It cannot be solved by minor adjustments in fiscal policy, in debt management policy, or in monetary and credit policy. We need a Complete reappraisal of what is involved in financial mobilization for a fullscale defense effort. We must not repeat the mistakes of World War II financing. As President Truman so clearly and correctly pointed out last Fall. 'During World War II we borrowed too much and did not tax ourselves enough. We must not run our present defense effort on that kind of financial basis.' Certainly the President and the Treasury have taken an heroic stand in this emergency to press for a 'pay-as-we-go' tax program, and the suggestions made here are for the purpose of strengthening their hands.

"The American economy has been subjected to a major inflation in spite of the harness of direct controls applied during the last war. That program broke down rapidly when hostilities ceased. As soon as the harness was removed the pent-up power of the swollen money supply, which resulted from the war financing methods, broke loose in a tremendous inflationary tide.

"Last Wednesday consideration was given to building a dam of general price and wage controls to stem these forces. Such a dam along—and at this time—will not suffice. Unless it is part and parcel of a broadscale carefully integrated program of direct restraints on spending plus fiscal and credit measures to lock up demand, it may actually compound the problem by precipitating widespread hoarding as the freeze on automobile prices has already done. A general freeze on prices and wages creates an illusion of anti-inflation security. By itself it does not deal with the fundamental causes. The inflationary flood which threatens to engulf us must be stemmed at the source."

Mr. Szymczak stated that he considered a letter to the President to be essential because the President had released the letter to the Chairman, as a result of which an answer was required for the purpose of clarifying the matter in the President's mind, if not for public release. He said that the letter should be as clear as possible but particularly he suggested that it emphasize that the Committee was not interested in interest rates as such, that it was not talking about a thirty-second or an eighth or a quarter of one per cent, but that it was talking about the availability of bank reserves. He suggested that the letter bring out the fact that the Committee had been virtually prevented from carrying out the policy adopted on August 18, 1950, because of Treasury opposition, that everything it had attempted to do was in the public interest, that the public interest would be best served by preserving a sound dollar, that the inflationary situation was developing rapidly before the Korean incident in June, and that it had become much worse since then. Mr. Szymczak also suggested that it was important to point out the difference between the situation in 1941, when the country had idle plants and manpower and large excess bank reserves, and the present when plants and manpower were operating practically at capacity. Mr. Szymczak also expressed the view that a program for supplementary reserve legislation should be decided upon by the Board, or, possibly, by the Committee, that it should be brought before the Congress as soon as possible, and that it should stress the necessity for additional authority if the Federal Reserve was to carry out its responsibilities in the fight against inflation.

Following a report by Mr. Thomas of conditions in the market for Government securities, the discussion turned to a consideration of policy that might be followed, during which question was raised as to whether any of the members of the Committee would wish to go along with the program announced by the Treasury, of freezing the long-term interest rate on both refunding and new issues at present levels.

Mr. Vardaman reiterated the view that the Committee should go along with the position taken by the Treasury, meantime taking the matter to Congress for clarification.

Chairman McCabe suggested that, on the basis of the views expressed, Messrs. Thurston, Riefler, and Thomas be asked to prepare, for consideration by the Committee at a meeting tomorrow morning, drafts of letters that might be sent to the President and to the Secretary of the Treasury.

Thereupon, the meeting recessed and reconvened at 12:30 p.m. on Wednesday, February 7, 1951, with the same attendance as at the close of the session on February 6, except that Mr. Vardaman was not present and requested that the minutes show that he had left the building at 12:15 to attend a meeting at the Department of Defense on the V-loan program.

At Chairman McCabe's request, the Secretary read a draft of letter to the President prepared pursuant to the understanding at yesterday's session. During a discussion of the draft, Chairman McCabe raised the question whether the letter should include specific reference to maintenance of the 2-1/2 per cent rate on long-term securities, and it was the concensus that inclusion of a reference to that rate would not be desirable. He then suggested that the staff prepare another draft in the light of the suggestions made and that it be considered at another session this afternoon.

The meeting recessed at 1:32 p.m. and reconvened at 3:30 p.m., with all of the members of the Committee present and all of the staff that had been present at the previous session except that Messrs. Carpenter, Thomas, Rouse, Thurston, and Riefler were not present.

Chairman McCabe stated that the staff was still working on a revision of the draft of letter to the President and he suggested that in the meantime consideration be given to a memorandum prepared under date of February 5, 1951, in the Board's offices at the Board's request and under the direction of Mr. Powell, with respect to a program that might be proposed by the Board of Governors or by the Committee for restraining the expansion of credit. Mr. Vardaman withdrew from the meeting at this point.

At the Chairman's request, the memorandum was read and Chairman McCabe called the Legal Division to inquire whether there had been any legislation since the Banking Act of 1935 which gave additional authority to the Treasury in the field of public debt management as it related to the functions of the Federal Open Market Committee, and it was understood that the Legal Division would prepare a memorandum covering this subject.

As the reading of the memorandum was completed, Messrs. Carpenter, Thomas, Rouse, Thurston, and Riefler, joined the meeting.

Mr. Carpenter then read a revised draft of letter to the President, during which Mr. Vardaman joined the meeting.

The revised draft of letter was discussed and changed and re-read by the Secretary.

Mr. Vardaman stated that he had no suggestions to make about the letter but that he would not wish to vote to approve its transmission to the President until he knew what program the Committee was going to follow.

Mr. Sproul suggested that the Committee should be prepared to tell the Secretary of the Treasury what the program of the Committee would be, and that a statement with respect to the program need not be included in the letter to the President for reasons previously stated.

> This point was discussed, and at the conclusion of the discussion, upon motion duly made and seconded, the letter to the President was approved in the following form, Mr. Vardaman voting "no" for the reason previously stated by him:

"You as President of the United States and we as members of the Federal Open Market Committee have unintentionally been drawn "into a false position before the American public—you as if you were committing us to a policy which we believe to be contrary to what we all truly desire and we as if we were questioning your work or defying your wishes as the chief executive of the country in this critical period. We would betray our duty to the country as well as to you if we failed to do all in our power to clear up these misunderstandings.

"In your recent meeting with us you clearly stated as your objective one which underlies Federal Reserve operations—the maintenance of confidence in the integrity of the dollar and therefore in Government securities. In your recent economic report to the Nation you said: 'If inflation continues to gain cumulative force it will multiply the cost of the defense program. It will undermine production, destroy confidence, generate friction and economic strife, impair the value of the dollar, dissipate the value of savings and impose an intolerable burden upon fixed income groups. This must not happen.'

"We propose to do all in our power to prevent it happening. We are dedicated to the preservation of the purchasing power of the dollar. Any policy which eats away this purchasing power—which increases the cost of living—at the same time and to the same degree undermines confidence in the credit of the United States. The credit of the United States Government in the final analysis rests with the American people. It depends upon the public's willingness to buy and hold Government securities.

"The heart of the problem which confronts us is this: How can we stop the decline in the purchasing power of the dollar? How can we curb the dangerously rising tide of credit which is adding to the country's supply of dollars at an unprecedented rate? How can we arrest the flight of dollars into hedges against inflation when the supply of dollars is growing so fast? How can we best encourage people to hold and increase their savings and to spend less so long as inflationary dangers threaten?

"Without confidence in sound financial management, this flood of newly created dollars in the form of credit cannot be controlled. It will overwhelm whatever price, wage, and similar controls, including selective credit measures, that may be contrived. This problem was not present in the mobilization period preceding World War II. Then the country had an abundance of unused plant, materials, and manpower. Savings had been depleted. Liquid assets were low and the public did not fear rising prices or shortages of goods and therefore did not anticipate the possibility of inflation.

"Today our concern and our responsibility is with the basic problem of bank reserves which continue to generate a rising "tide of money. In the face of existing inflationary pressures there is no effective way of stemming this tide that will not reflect itself in interest rates. It merely confuses the issue to charge that the Open Market Committee favors higher interest rates per se. We favor the lowest rate of interest on Government securities that will cause true investors to buy and hold these securities.

"Today's inflation is not due to deficit financing by the Government. It is due to mounting civilian expenditures largely financed directly or indirectly by sale of Government securities to the Federal Reserve. You have taken a courageous and forthright stand for increased taxes to finance the defense effort on a pay-as-we-go basis. If the additional taxes which you have recommended are enacted, little or no new Government borrowing will be needed. The experience of the past year, however, has clearly demonstrated that a balanced budget alone cannot stop inflation. We shall still need to deal with inflationary threats arising from civilian spending based largely upon the present excessive money supply, augmented by the liquidation of Government securities by the banks and other holders.

"It continues to be, as it has always been, the policy of the Federal Reserve System and of its Federal Open Market Committee to adapt credit policy to the needs and requirements of the Government as well as of the country. Our support of Treasury financing in time of war and in time of peace has given clear proof of this policy.

"However, in inflationary times like these our buying of Government securities does not provide confidence. It undermines confidence. The inevitable result is more and more money and cheaper and cheaper dollars. This means less and less public confidence. Mr. President, you did not ask us in our recent meeting to commit ourselves to continue on this dangerous road. Such a course would seriously weaken the financial stability of the United States and encourage a further flight from money into goods. It would not be consistent with our responsibility to the Congress and to the people of this country to follow such a program.

"In your meeting with us you mentioned the experience of returned veterans and other small holders with Liberty Bonds after World War I. As you know, the Savings Bonds of today are specifically designed to avoid a repetition of this experience. The Liberty Bonds were marketable securities subject to market fluctuations in price. These fluctuations were excessive following World War I, particularly because a large volume of Liberty Bonds were not purchased out of savings but with bank-borrowed funds. Later many of these were dumped on the market to repay loans. As a result, in the absence of any provision for support to maintain orderly conditions in the market, they reacted excessively in price.

"The Savings Bonds of today, unlike Liberty Bonds of World War I, are redeemable on demand at specified values. The holder of Savings Bonds need not be concerned with market fluctuations because he will always get back dollars he has put into such bonds with a stated amount of interest.

"In our open market operations we are concerned only with the marketable issues, which are largely held by banks, other financial institutions, and experienced market-wise corporate and individual investors. We have maintained, and plan to continue to maintain, orderly conditions in these issues. These holders are accustomed to changes in prices of securities and to shifting their investments in order to take advantage of more profitable opportunities. Today they are able to sell their Government bonds to the Federal Reserve at a premium, whereas the owners of Savings Bonds, in which savings of the mass of the people are invested, must accept a lower interest return if they redeem their bonds before maturity.

"In accordance with our assurances to you, we shall seek to work out with the Secretary of the Treasury as promptly as possible a program which is practicable, feasible and adequate in the light of the defense emergency, which will safeguard and maintain public confidence in the values of outstanding Government bonds, and which at the same time will protect the purchasing power of the dollar.

"Finally, at this critical time, when the cooperation of every one is desperately needed, we sincerely trust that the decisions which are made will be for the best interests of the people of the United States."

Chairman McCabe suggested that in order that there would be no question about the matter, the letter to the President carry a postscript to the effect that 11 of the 12 members of the Committee approved the letter and that Mr. Vardaman was opposed. Upon inquiry by Chairman McCabe as to whether Mr. Vardaman would have any objection to such a postscript, the latter stated that he would have none with the understanding that the reason for his dissent would be stated in the postscript that he wanted to have a program decided upon by the Committee before the letter to the President was transmitted. Chairman McCabe stated that the next order of business would be the question of what would be said to the Secretary of the Treasury with respect to credit and debt management policies and that if Mr. Vardaman wanted to change his vote he would be at liberty to do so.

Chairman McCabe then suggested that it be understood that the manner and time of transmittal of the letter to the President be left to the discretion of the Chairman.

Upon motion duly made and seconded, and by unanimous vote, this suggestion was approved.

Secretary's note: It was the decision of the Chairman that the letter should be transmitted to the White House without the postscript referred to above. Mr. Vardaman was not informed of this decision and did not know of it until he inquired of the Secretary's office after reference was made to the existence of the letter in the press. At that time Mr. Vardaman discussed the matter with Messrs. Carpenter and Thurston and stated to the latter that he would be satisfied if Mr. Thurston would call Mr. Short, Press Secretary to the President, and advise him that Mr. Vardaman had not approved the letter. Thereupon, Mr. Thurston called Mr. Short and informed him accordingly.

The letter was delivered to the White House shortly after 7:30 p.m. on Wednesday, February 7, 1951, and in response to an inquiry from a member of the White House staff as to whether the letter was important, since an important letter would be delivered directly to Blair House for the

President that evening, it was stated that the letter was important and that the White House staff should handle it in accordance with whatever procedure was usually followed in the case of an important communication.

At Chairman McCabe's suggestion the Secretary then read a draft of letter to the Secretary of the Treasury.

The draft was discussed and upon motion duly made and seconded, and by unanimous vote, approved in the following form:

"Following the meeting of the Federal Open Market Committee with the President on January 31, at which the President expressed the wish that the Committee provide support to the Government securities market during the emergency period, the Committee has considered what policies might be advisable in the immediate future. We should like to discuss with you at an early date a coordinated credit policy and debt management program which would assist in the highly important fight against inflation and improve public confidence in the market for Government securities. We would suggest as a basis for that discussion a program along the following lines:

"(1) The Federal Reserve, for the present, would purchase the longest-term restricted Treasury bonds now outstanding in amounts necessary to prevent them from falling below par.

"(2) If substantial Federal Reserve support of the longest-term restricted bond is required, you would be prepared to announce that at an appropriate time the Treasury would offer a longer-term bond with a coupon sufficiently attractive so that the bond would be accepted and held by investors. It would be announced that outstanding long-term restricted bonds would be exchangeable for the new bond and that the new bond would be offered for cash subscription by nonbank investors on a basis to be determined.

"We should like to discuss with you possible features for the new bond that would remove or reduce the need for Federal Reserve support of the market in the future.

"(3) For the purpose of restricting the creation of bank reserves through sales of short-term securities to the Federal Reserve, particularly by banks, the Committee would keep its purchases of such securities to the minimum amounts needed to maintain an orderly money market.

"Under this policy, banks would be expected to obtain needed reserves primarily by borrowing from the Federal Reserve Banks. If demands for expansion of bank credit and bank reserves should continue, short-term interest rates presumably would adjust to a level around the discount rate.

"This is the time to inaugurate the suggested program. It appears that the Treasury will not need any financing either for new funds or for refunding until next summer. It is important that rate adjustments be made before that time so that your large refunding and new money financing in the second half of this year may be carried out smoothly and successfully without undue support by the System.

"Only through policies such as these can restraint on credit expansion be exercised in the degree that is so necessary to avoid continued erosion of the purchasing power of the dollar and to maintain the strength of our economy in this critical period. Both the Treasury and the Federal Reserve have a vital interest in this objective.

"We hope that we may have an early opportunity of discussing this matter with you."

Secretary's note: The letter was delivered by Chairman McCabe and Mr. Sproul to the Secretary of the Treasury when they met with him at 9:00 a.m. on Thursday, February 8, 1951.

In response to a question, it was stated that this meeting of the Federal Open Market Committee would take the place of the one that had been called for February 13, 1951, at the last meeting of the Committee.

Mr. Sproul then stated that there had been some very regrettable leaks of information on what had happened during yesterday's session of the Federal Open Market Committee and he moved that it be understood that (1) no one would make any comment on today's session, (2) if there was any leak the Committee should seek to determine the source, and (3) if the source of the leak could be traced to a member of the Committee that would be sufficient cause for removal of the member from the Federal Open Market Committee.

Chairman McCabe referred to the article which appeared in The Wall Street Journal of this date commenting on yesterday's session of the Federal Open Market Committee and giving erroneous information with respect to the views of individual members as expressed at that session and indicating that there had been acrimonious discussion at the meeting which was also contrary to the fact. He said that he agreed strongly with Mr. Sproul's motion, adding that, if there was any further leak of information and it could be traced to a member of the Board of Governors, the Committee should request the President to take steps to remove the member from the Federal Open Market Committee, and if a leak should be traced to a Federal Reserve Bank President who was a member of the Federal Open Market Committee, or to a member of the staff, the Board of Governors should take action to remove the individual from office. He went on to say that he felt it disgraceful that there had been leaks of information such as that appearing in The Wall Street Journal today and in other papers recently, that he had talked with the publisher of The Wall Street Journal today and had taken steps to trace the source of the story in today's edition, and that under the circumstances the publisher of the paper indicated he was sorry that the article had appeared in the form it had. Chairman McCabe also stated that certain Senators had called him on the telephone and stated that material had been sent to them by a member of the Committee, that they were also being asked for appointments, that it was very embarrassing to them, and that Senator O'Mahoney had called him this afternoon to ask whether there was any way in which he (Chairman McCabe) could put a stop to such procedure. Chairman McCabe stated that he told Senator O'Mahoney that he was very sorry, that it was embarrassing to the Committee as well as to the Senator, and that the worst part was that the report appearing in The Wall Street Journal today was erroneous since, while there had been honest differences of opinion at the session of the Committee yesterday, the discussion had been on a very objective basis. Chairman McCabe also suggested that it be understood that if there was any instance in which a member of the Committee was found to be undermining with members of Congress or others the position of the Board of Governors or the Federal Open Market Committee, those facts should be brought to the attention of the President with great force.

> Thereupon, upon motion duly made and seconded, unanimous approval was given to Mr. Sproul's motion.

Mr. Eccles suggested that some thought be given to what might be said to the press when this meeting adjourned and it was agreed that Mr. Thurston would prepare a draft of statement for consideration at another session to be held tomorrow morning.

Thereupon, the meeting recessed and reconvened at 11:25 a.m. on Thursday, February 8, 1951, with the same attendance as at the close of the previous session, except that Mr. R. F. Leach was not present.

Chairman McCabe stated that he and Mr. Sproul had had two conferences this morning, one at nine o'clock with Secretary of the Treasury Snyder in the latter's office at which Messrs. Martin and Bartelt were also present, and one at ten o'clock with Senator O'Mahoney, who had called at Chairman McCabe's office.

Chairman McCabe then made a statement substantially as follows:

> We met with Secretary Snyder at nine o'clock. He had very strong feelings about the situation that had been created. He took up first my conference with him and the President on January 17 and said that he thought he had certain definite understandings, and he went on to give me those. Then I gave my views. We had a little discussion. Then he referred back to the August 18, 1950, meeting, which he dwelt upon at considerable length because he felt that we had then delivered an ultimatum to him without giving him a chance to express his point of view. Mr. Sproul answered him very effectively on that. Then there followed a general discussion of what had been taking place, and, finally we got around to reading him a copy of the letter to the President. His comment was that it sounded a little "preachy" to him, and he questioned whether we should send a letter of that type. He also made the comment that if the President did not release the letter, he supposed that within 24 hours someone over here would do so. Then we read him the letter addressed to him, and there followed quite a discussion in which he expressed strong reservations about doing anything at this time, saying that he thought it was largely a question of settling down and everybody keeping quiet and letting the market have a chance to act. When it had a few days to do that, he said, the market acted very well. He ended up by saying that he would like to have that letter and go over it and discuss it with us again.
>
> I also read to Secretary Snyder the memorandum which I read to this Committee when we met on January 31, the one that I dictated after the conference with the President and Secretary Snyder on January 17. He did not disagree with any part of the memorandum except to say that it was very definite in his mind that he was talking about future financing. I said,

what I could not understand was, if he was going to make a public announcement and a speech in New York the following day, why he would come to a meeting like that and not make a comment on what he was going to say. I said I knew nothing of the purpose of the meeting with the President, that in my previous conversations with Mr. Snyder and the President the primary thing was maintaining confidence in long-term restricted bonds, and that the President started off his conversation by saying, "I am concerned about those 2-1/2 per cent bonds." I also said that if the Secretary had in mind making a public announcement like the one he made on January 18, I felt strongly that he should have let me know, especially where he used my name and the President's name. He said the President knew exactly what he was going to do and what he was going to say. I said to the Secretary, "The President told me afterward that he did not know you were going to make a speech in New York." That disturbed Secretary Snyder very greatly. He said the President knew exactly what he was going to say. I replied that I could not understand why the Secretary did not spell this out for me, and give me a chance to have my say, particularly since he knew that as Chairman of the Committee I could not commit the Federal Open Market Committee on future policies. He said hereafter we will have it all spelled out, because then we will know exactly what it is, and I said I would like to have it spelled out. I said this had cut me very deeply because I did not know the statement was going to be issued, and I did not know he was going to make the speech in New York and make the announcement as he did. I did not feel his explanation of the circumstances was satisfactory.

As to the meeting of the Committee with the President on January 31, the Secretary said he had no idea that the President was going to call the Federal Open Market Committee over there. Mr. Sproul spoke up and referred to the Treasury's official announcement immediately after that meeting as to what was pledged on the part of the group and I do not think the Secretary made any comment.

I suppose that we will wait for a few days to get his comments on our letter to him and then there will be another meeting.

In response to questions by Chairman McCabe and others while he was giving the foregoing report, Mr. Sproul made additional comments at various intervals during the report substantially as follows:

The Secretary started out by saying, and he was very emphatic about this, that he had nothing to do about arranging the President's invitation to the Federal Open Market Committee to come to the White House and knew nothing about it. In presenting the Secretary with a copy of the letter to the President, it was clearly understood that it would be regarded as confidential unless the President approved giving it out. In connection with our letter to the Secretary, he said that he would take it and study it, but his whole attitude during the discussion was that the market should be maintained as it was and that stability of the market at present prices should be continued. He spoke of his great financing problems and of the critical situation of the country at this time. The Secretary did not answer the Chairman's question as to why he (the Secretary) did not say at the meeting with the President on January 17 that he was going to make a speech in New York and what he was going to announce at that time.

In commenting on the meeting of the Committee with the President, I said to the Secretary that, while the President's request to come over was unprecedented, we went and the conversation was in general terms and there was nothing we could find fault with in the conference with the President, but that what appeared afterwards in the White House press comments and subsequent interpretations of the Treasury was not in accordance with the conference.

When the Secretary brought up the question of the August 18, 1950, meeting and spoke of it as an ultimatum and of his not having had an opportunity to express his views, I said that I would like to have him know how the situation looked from the other side of the fence, that perhaps he did not know how it looked to us, that we had been discussing these problems with him for more than a year, that we had come over and laid down our programs with him time and time again, that we had presented them to him in writing and in discussion, that he had discussed them with us little or not at all, that he had usually turned to an associate and usually asked if they had any comment to make and had then said that he would let us know what he was going to do, that that had usually been followed by an announcement by him, often anticipating far in advance his needs, of the financing program which had differed almost completely from our recommendations and which had had the effect of freezing our position. I said that it was only in the light of that experience that we thought it was asking too much last August to expect to get agreement from him in advance, and that we therefore

> decided to come over and tell him at that time what we were going to do. He responded that from his side of the fence it did not look that way at all, that we had come over and told him what was going to be done, and that within a few hours what we said would be in the papers and that before he had had a chance to consider and make up his mind, the possibility of any other course of action had been denied him.

There followed a discussion of the statements by Chairman McCabe and Mr. Sproul during which question was raised as to whether the letter to the President was likely to be released. Chairman McCabe stated that he had tried to get in touch with Mr. Connelly, Secretary to the President, to suggest that it be released but that he had not reached him. During the discussion a report was brought into the room that at a press conference that morning the President had told newsmen that he understood that a majority of the Federal Reserve Board agreed with him on his interest rate views, and that it was his understanding that a majority of the Reserve Board members sided with him on the interest rate question between the Board and the Treasury.

In this connection Mr. Carpenter stated that after the letter to the President had been delivered to the White House last night a call came to the building asking whether the letter was important, since if it was important it would be delivered to Blair House at once, but if it was not it would be held at the White House for delivery in the morning. Mr. Carpenter added that the White House inquirer was informed that the letter was important and that it should be handled in whatever way was customary for such letters.

Mr. Szymczak stated that it was understood at the meeting of the Committee yesterday that no information would be given out by the members of the Committee with respect to the meeting and that any breach of that understanding would be grounds for removal. The problem, he said, was what was to be said by the Committee to the press, that there would be an attempt on the part of the press to find out what had been discussed at the meeting of the Committee, and that for that reason there should be some kind of a statement from the Committee. He also said that members of Congress were becoming increasingly interested in the whole question and were making speeches on the floor with respect to it and that there should be some statement that could be made to them.

Chairman McCabe said that if the President should decide not to release the letter from the Committee it would be in order for the Committee to decide whether it wished to issue a statement and that it might be left to the executive committee to issue a statement or to prepare a statement that could be cleared with the members of the full Committee. It was also suggested that the question of a statement to members of Congress could be covered in discussions with the Chairman of the Subcommittee of the Senate Banking and Currency Committee on Federal Reserve Matters and the Chairman of the Joint Committee on the Economic Report.

Mr. Szymczak stated that if the White House did not release the letter to the President and the Treasury delayed a reply to the letter to the Secretary, there should be a statement by the Federal Open Market Committee.

Mr. Thurston stated that the question might be asked by the press whether there had been a reply to the letter from the President to Chairman McCabe.

> There was a discussion of what might be said in that situation and it was agreed unanimously that if such an inquiry should be made, Mr. Thurston would be authorized to say in response to the inquiry if made that a reply had been sent to the White House.

There was also a discussion of the procedure that should be followed in the event the Treasury did not accept any part of the program outlined in the letter to the Secretary. Mr. Szymczak pointed out that there was the immediate problem of what should be done with respect to the price at which long-term restricted bonds would be bought for the System account and Mr. Sproul stated that when the Treasury discontinued its purchases of the longest-term restricted issue, the New York Bank, acting under instructions from the executive committee, should begin to drop the price rapidly in an orderly market to slightly above par.

Mr. Rouse stated that there should be some clarification of the manner in which the price should be permitted to decline--whether it should be by steps of 1/32 or 2/32 at a time or whether the decline should be a rapid drop to slightly above par. Mr. Sproul suggested that in terms of an orderly market the decline should not be more rapid than 4 to 8/32 a day.

It was stated that as long as the Treasury continued to purchase the December 67-72 restricted bonds at par and 22/32, the market price on the June 67-72 issue would not decline very far and Chairman McCabe expressed the opinion that until the Treasury discontinued its purchases there would be no point in lowering the System's support price on the June 67-72 issue.

During the discussion, Mr. Vardaman withdrew from the meeting to keep another appointment and at the conclusion of the discussion it was decided that pending further discussion with the Treasury no action should be taken to permit the market price of long-term restricted bonds to decline.

Mr. Sproul stated that a decision on System policy should not be long delayed and that if no word was received from the Secretary of the Treasury early next week the matter should be taken up with him again.

> It was agreed unanimously that the program which the Committee would like to see put into effect was set forth in the letter to the Secretary of the Treasury dated February 7, 1951, and that it should be left to the executive committee to carry the program into effect so far as open market operations were concerned, if an agreement could be reached with the Treasury. In reaching this agreement, Chairman McCabe emphasized the necessity for exercising extreme care to assure that in carrying out the policies of the full Committee no grounds be given for a charge by the Treasury or anyone else of bad faith on the part of the Committee.

In the light of the above discussion, it was agreed that a meeting of the executive committee should be held in Washington at 2:30 p.m. on Wednesday, February 14, 1951.

During the discussion, Mr. Sproul reviewed briefly the substance of the discussion which he and Chairman McCabe had this morning with Senator O'Mahoney, Chairman of the Joint Committee on the Economic Report.

Mr. Sproul suggested that the general direction of the full Committee to the executive committee to arrange for transactions in the System account be renewed without change.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously with the understanding that the limitation 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 $2,000,000,000.

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.

Mr. Rouse then referred to the authorization given by the Federal Open Market Committee to the Federal Reserve Banks on March 1, 1950, to enter into repurchase agreements with nonbank dealers in United States Government securities who are qualified to transact business with the System open market account under certain conditions and to the provision in the authorization that such agreements would be at least 1/8 per cent above the average issuing rate of United States Treasury bills. Mr. Rouse went on to say that the average issuing rate on Treasury bills had increased to a point where if the foregoing provision was observed literally the rate would be 1.52 per cent, that it had been customary to move the rate on the repurchase agreements in steps of 1/8 of one per cent which would mean a rate of 1-5/8 per cent, and that it would be his recommendation that the New York Bank be authorized to enter into such agreements at a differential of less than 1/8 per cent so that the agreements could be made at 1-1/2 per cent. At that rate, he said, dealers would take positions in bills which they could resell readily in the present market and it would not be necessary for the System account to purchase them.

It was agreed unanimously that, pending further action by the Committee, the authorization referred to by Mr. Rouse would be modified in accordance with his suggestion.

It was tentatively agreed that the next meeting of the Federal Open Market Committee would be held on March 9, 1951.

Thereupon the meeting adjourned.

Secretary.