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 on Thursday, October 3, 1946, at 10:45 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Vardaman
Mr. Leach
Mr. McLarin
Mr. Young
Mr. Peyton (alternate for Mr. Clerk who died on September 28)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Vest, General Counsel
Mr. Townsend, Assistant General Counsel
Mr. Thomas, Economist
Messrs. Kincaid, Rauber, Wheeler, and John H. Williams, Associate Economists
Mr. Rouse, Manager of the System Open Market Account
Mr. Thurston, Assistant, and Mr. Kennedy, Special Assistant, to the Chairman of the Board of Governors of the Federal Reserve System
Mr. Sherman, Assistant Secretary of the Board of Governors
Mr. Musgrave, Chief of the Government Finance Section of the Division of Research and Statistics of the Board of Governors

Messrs. Whittemore, Gidney, and Davis, alternate members of the Federal Open Market Committee

Messrs. Alfred H. Williams, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Philadelphia, Kansas City, and Dallas, respectively

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 10, 1946, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meeting of the executive committee on June 10, 1946, were approved, ratified, and confirmed.

Mr. Rouse, as Manager of the System Open Market Account, reviewed the report prepared by the Federal Reserve Bank of New York of open market operations in the System open market account covering the period from June 11, 1946, to September 30, 1946, inclusive, and a supplementary report prepared by the New York Bank covering commitments executed on October 1 and 2, 1946. During the course of Mr. Rouse's statement copies of the report first mentioned were distributed to those present and copies of both reports have been placed in the files of the Federal Open Market Committee.

After a brief discussion, upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period from June 10, 1946, to October 2, 1946, inclusive, were approved, ratified, and confirmed.

Following the passage of the Administrative Procedure Act on June 11, 1946, counsel for the Committee prepared drafts of Federal Open Market Committee rules on organization and information and rules on procedure to be issued by the Committee in compliance with the provision of section 3 of that Act. Copies of these drafts were sent to the members of the Committee and other Presidents of the Federal Reserve Banks for their comments, following which the rules were revised in the light of the comments and suggestions received. Thereafter, the revised rules were sent to the members of the Committee and, after approval by the members who were in Washington and the five Presidents who were members of the Committee, to become effective September 11, 1946, the rules were published in the Federal Register and copies were sent to the Presidents of all of the Federal Reserve Banks.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the Federal Open Market Committee in approving the rules, to become effective September 11, 1946, was approved, ratified, and confirmed. The rules as approved by the Committee were in the following form:

"RULES ON ORGANIZATION AND INFORMATION

"Sec. 1. Basis and Scope. - These rules are issued by the Federal Open Market Committee (hereinafter sometimes called the Committee) pursuant to the Administrative Procedure Act and the Federal Reserve Act. Included therein are the rules specified by sections 3(a)(1), 3(b), and 3(c) of the Administrative Procedure Act.

"COMPOSITION AND MEETINGS OF COMMITTEE

"Sec. 2(a) Members. The Federal Open Market Committee consists of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks who are Presidents or First Vice Presidents of such banks. The representatives of the Federal

"Reserve Banks, and an alternate for each representative, are elected in accordance with section 12A of the Federal Reserve Act for terms of one year commencing on March 1 of each year.

"(b) Chairman and Vice Chairman. - At its first meeting on or after March 1 of each year, the Committee selects a Chairman and a Vice Chairman from among its membership.

"(c) Meetings. - The Committee meets at Washington, D. C., on call by the Chairman of the Board of Governors of the Federal Reserve System or at the request of three members of the Committee, at least four times each year and oftener if deemed necessary.

"EXECUTIVE COMMITTEE

"Sec. 3(a) Members. - At its first meeting on or after March 1 of each year, the Federal Open Market Committee selects from among its membership an Executive Committee consisting of three members of the Board of Governors of the Federal Reserve System and two of the representatives of the Federal Reserve Banks. Alternates to serve in the absence of members of each group represented on the Executive Committee are likewise selected. The Chairman of the Federal Open Market Committee is one of the members of the Executive Committee and serves as its Chairman.

"(b) Meetings. - The Executive Committee meets periodically, on call of the Chairman or at the request of two members, as necessary in the performance of the duties assigned to it.

"(c) Duties. - The duties of the Executive Committee are:

"(1) To direct the execution of transactions in the open market in accordance with open-market policies adopted by the Federal Open Market Committee;

"(2) To allocate the Government securities and other obligations held in the System Open Market Account among the several Federal Reserve Banks in accordance with the principles determined by the Federal Open Market Committee;

"(3) To keep the members of the Federal Open Market Committee informed of all transactions executed under the direction of the Federal Open Market Committee and of all allocations and reallocations of Government securities and other obligations held in the System Open Market Account; and

"(4) To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee.

"OTHER PERSONNEL

"Sec. 4(a) Official Staff. - The official staff of the Federal Open Market Committee includes its Secretary, Assistant Secretary, General Counsel, Assistant General Counsel, Economist, and Associate Economists, who perform the duties indicated by their titles. These staff members are selected from among the officers and employees of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks.

"(b) System Open Market Account. - One of the Federal Reserve Banks is selected by the Committee to execute transactions for the System Open Market Account. Such bank selects a Manager of the System Open Market Account, satisfactory to the Committee.

"(c) Others. - The services of other officers and employees of the Board of Governors of the Federal Reserve System and Federal Reserve Banks are made available and are utilized by the Committee as required.

"SUBMITTALS, PETITIONS, AND REQUESTS

"Sec. 5(a) Place. - The mailing address of the Federal Open Market Committee is: Federal Reserve Building, 20th Street and Constitution Avenue, Washington 25, D. C. The Committee customarily meets at the offices of the Board of Governors of the Federal Reserve System at that address.

"(b) Method. - All submittals, petitions, and requests, including requests for access to information, shall be made in writing and mailed to the Committee at the address stated in section 5(a) of these rules. Any petition or request shall be signed by the person making it, or his duly authorized agent, and shall, in so far as practicable, clearly, completely and concisely state his full name and address, the facts involved (including the purposes for which any unpublished information requested will be used if made available), the action desired, the person's interest in the matter, and the reasons why the petition or request should be granted.

"AVAILABILITY OF INFORMATION

"Sec. 6(a) Federal Register. - Rules describing the Committee's organization and procedure and any substantive rules or statements of policy which are formulated and adopted by the Committee for the guidance of the public will be published in the Federal Register.

"(b) Policy Record. - A complete record of the actions taken by the Committee during the preceding year upon all matters of policy relating to open market operations, showing the votes taken and the reasons underlying the actions, is included in each annual report made to Congress by the Board of Governors of the Federal Reserve System in accordance with Section 10 of the Federal Reserve Act.

"(c) Unpublished Information. - Except as may be specifically authorized by the Committee or its Executive Committee, or as may be required in the performance of duties for, or pursuant to the direction of, the Committee, no person shall disclose, or permit the disclosure of, any unpublished information of the Committee to anyone, whether by giving out or furnishing such information or copy thereof, by allowing any person to inspect, examine or copy such information or copy thereof, or by any other means. Unpublished information of the Committee shall include all information concerning the proceedings, deliberations, discussions, and actions of the Committee and all information or advice coming to the Committee or to any member of the Committee or any officer, employee or agent of the Committee, the Board of Governors of the Federal Reserve System, or any Federal Reserve Bank, in the performance of duties for, or pursuant to the direction of, the Committee, whether contained in files, memoranda, documents, reports, books, accounts, records, or papers or otherwise acquired and whether located at the offices of the Board of Governors of the Federal Reserve System, the Federal Reserve Banks, or elsewhere: Provided, That it shall not include information which has been published in accordance with sections 6(a) and 6(b) of these rules or information which is available to the public through other sources.

"(d) Reasons for Non-disclosure. - The non-disclosure of unpublished information of the Committee generally is required in the public interest for one or more of the following reasons:

"(1) Disclosure of unpublished information concerning policies with respect to future open market operations "which are under consideration or have been adopted by the Committee, and of unpublished information which might aid in anticipating action by the Committee, would:

"(i) Interfere with the accomplishment of the objectives of the Committee's actions taken with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country;

"(ii) Permit speculators and others to reap unfair profits or other unfair advantages by speculative trading in securities and otherwise;

"(iii) Interfere with the orderly execution of policies adopted by the Committee;

"(iv) Result in unnecessary and unwarranted disturbances in the securities markets;

"(v) Make open market operations more costly to the Federal Reserve Banks;

"(vi) Interfere with the orderly execution and accomplishment of the objectives of policies adopted by other Government agencies concerned with economic and fiscal matters; and

"(vii) Cause misinterpretations and misunderstandings, with possible resultant impairment of public confidence in the nation's financial structure.

"(2) The Committee's unpublished information includes much that is furnished to it on a secret or confidential basis and its disclosure would:

"(i) Have the effects described in section 6(d)(1) of these rules;

"(ii) Impede the necessary collection of information and advice, much of which cannot be obtained except on a confidential and voluntary basis; and

"(iii) Unreasonably and unnecessarily disturb and interfere with individual privacy and confidential business relationships.

"(e) Requests for Unpublished Information. - Requests for access to unpublished information will be granted only if it clearly appears that disclosure of the information will not be contrary to the public interest for any of the reasons set forth in section 6(d) of these rules.

"SUBPOENAS

"Sec. 7(a) Advice by Person Served. - If any person, whether or not an officer or employee of the Committee, "of the Board of Governors of the Federal Reserve System or of a Federal Reserve Bank, has unpublished information of the Committee and in connection therewith is served with a subpoena, order, or other process requiring his personal attendance as a witness or the production of documents or information upon any proceeding, he shall promptly advise the Committee of such service and of all relevant facts, including the documents and information requested and any facts which may be of assistance in determining whether such documents or information should be made available; and he shall take action at the appropriate time to advise the court or tribunal which issued the process, and the attorney for the party at whose instance the process was issued, if known, of the substance of these rules.

"(b) Appearance by Person Served. - Except as disclosure of the relevant information has been authorized pursuant to these rules, any such person who has unpublished information of the Committee and is required to respond to a subpoena or other legal process shall attend at the time and place therein mentioned and respectfully decline to produce any documents or disclose any information or give any testimony with respect thereto, basing his refusal upon these rules. If, notwithstanding, the court or other body orders the production of any documents, disclosure of any information, or giving of any testimony, the person having such unpublished information of the Committee shall promptly report the facts to the Committee."

"RULES ON PROCEDURE

"Sec. 1. Basis and Scope. - These rules are issued by the Federal Open Market Committee (hereinafter sometimes called the Committee) pursuant to the Administrative Procedure Act and the Federal Reserve Act. They include the rules specified by section 3(a)(2) of the Administrative Procedure Act.

"Sec. 2. Committee Action. - The function of the Committee is the direction and regulation of open market operations which are conducted by the Federal Reserve Banks. This involves the determination of the policies which are to be pursued with respect to the purchase and sale of securities by the Federal Reserve Banks "with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country, together with consideration and action upon incidental matters relating to the manner in which such operations are to be conducted. The discharge of the Committee's responsibilities requires the continuous gathering of information and study of changing financial, economic, and credit conditions and other pertinent considerations by the members of the Committee and its personnel. These activities are closely interrelated with other activities of the Board of Governors of the Federal Reserve System and the Federal Reserve Banks and all relevant information and views developed by these organizations are available to the Committee. With this background, action is taken by the Committee upon its own initiative at periodic meetings held at least four times each year and oftener if deemed necessary. Attendance at Committee meetings is restricted to members of the Committee and its official staff, the Manager of the System Open Market Account, the Presidents of Federal Reserve Banks who are not at the time members of the Committee, and such other advisers as the Committee may invite from time to time. The Committee acts through the adoption and transmittal of directives and regulations to its Executive Committee or to the Federal Reserve Banks. Operations in the System Open Market Account are conducted under the direction of the Executive Committee pursuant to directives issued by the Committee.

"Sec. 3. Notice and Public Procedure. - There ordinarily will be no published notice of proposed action by the Committee or public procedure thereon, as described in section 4 of the Administrative Procedure Act, because such notice and procedure is impracticable, unnecessary, or contrary to the public interest for one or both of the following reasons:

"(a) Non-disclosure of information is required in the public interest for reasons stated in section 6(d) of the Committee's Rules on Organization and Information; and

"(b) Expeditious and timely action, without the delay incident to such notice and procedure, is required in the public interest.

"Sec. 4. Effective Date. - Committee action ordinarily will be made effective on the date the action is taken because the nature of the subject matter and the action taken is such that the public interest and the proper discharge of the Committee's responsibilities so require.

"Sec. 5. Submittals, Petitions, and Requests. - Submittals, petitions, and requests may be made to the Committee at any time in the manner stated in section 5 of the Committee's Rules on Organization and Information. They will be considered by members of the Committee's official staff and, where appropriate, will be brought to the attention of the members of the Committee or its Executive Committee for consideration and any necessary action."

In accordance with the request made by the Federal Open Market Committee at its meeting on June 21, 1939, an examination of the System open market account was made by the examiners for the Board of Governors as of June 28, 1946, at the time of the examination of the Federal Reserve Bank of New York. A report of the examination of the System account was submitted to the Secretary of the Committee under date of August 22, 1946, and copies of the report were brought to the attention of all of the members of the Committee. The report stated that the accounting procedures, records, and system of internal control maintained and the degree of care exercised by the Federal Reserve Bank of New York in connection with the System account were reviewed and that the examiner continued to regard them as adequate to the efficient administration of the account, and no exception was taken to the manner in which the function was handled in the period reviewed.

Upon motion duly made and seconded, and by unanimous vote, the report was received and ordered filed.

At this point Messrs. Ralph Young and Chandler Morse, Assistant Directors of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System, joined the meeting.

The reports of the economists were then called for. Mr. Thomas made a statement regarding the economic prospects over the next several months and Mr. Williams commented on some of the conditions which gave rise to doubts as to the course of future developments that made it difficult to forecast what might happen. Copies of the two statements have been placed in the files of the Federal Open Market Committee and are attached hereto.

Mr. Williams' statement was followed by a discussion of (1) the suggestion in his remarks that another effort be made by management and labor, with the assistance of Government, to reach an agreement as to what their respective policies should be, and (2) the policies of management with respect to prices and profits in the event of increased productivity.

The meeting then recessed and reconvened at 2:40 p.m. with the same attendance as at the end of the morning session except that Messrs. A. H. Williams, Gidney, Gilbert, Ralph Young, and Chandler Morse were not present.

In response to a question as to whether it would be worth while to make another effort to get an agreement between management and labor, Mr. Williams thought that because of changed conditions since the first effort was made there was a possibility that an agreement might be reached in a Conference that dealt with fundamentals of the economic situation, and that the suggestion might be made that management and labor ask for a conference and invite representatives of Government to sit in. It was suggested that if such a conference was to succeed it should at least have Government support. There was a discussion of how such support might be brought about.

Mr. McLarin inquired whether there would be any objection to the Presidents of the Federal Reserve Banks giving copies of the statements made by Messrs. Thomas and Williams to the members of their respective boards of directors. This point was discussed and it was concluded that the substance of the statements could be given to the boards of directors by the Presidents or by the Banks' economists without distributing copies of the statements. The reason for this position was that the economists for the Committee should be in a position to speak freely at the meetings of the Committee, with the understanding that their estimates or projections would not be distributed on the outside in view of the possibilities of misunderstanding of the figures as being official forecasts of the Committee, of the Board of Governors, or of the Federal Reserve Banks.

In connection with a review of the progress of the Treasury program for retirement of Government debt since the last meeting of the Committee, Chairman Eccles stated that the program had been more satisfactory in its effects than had been anticipated, that he had not expected that it would result so quickly in stiffening the long-term rate, and that it would be fortunate if the program could be continued into 1947.

At the request of the Committee, Mr. Kennedy read the following memorandum prepared by him and Mr. Musgrave under date of September 30, 1946, on the subject of debt retirement:

"The Treasury cash balance, after allowing for the announced cash retirement of 2 billion dollars of certificates on October 1, is estimated at somewhat below 7 billion dollars as of the end of October. A further issue of certificates totaling 3.8 billion is maturing on November 1, and it is recommended that 2 billion dollars of this issue be redeemed for cash, which will leave the Treasury balance at the end of November at about 5 billion.

Maturing during December are 3.8 billion dollars of certificates on December 1, and 3.3 billion dollars of 1-1/2 per cent notes on December 15. On the assumption that the balance should not be reduced below 2 billion, it will be possible to retire approximately 3.5 billion of these issues for cash. Cash retirements should be concentrated as much as possible upon the note issue, since it is held largely by the banking system, whereas the maturing certificate issue, which was sold in the Victory Loan, is held largely by nonbank investors. An exchange offer, therefore, for the entire amount of the maturing certificate issue should be made, and the December 15 notes should be redeemed for cash. If it should develop that the cash balance is not large enough to redeem the entire note issue which may be the case if a substantial part of the certificate exchange offer is not taken up, part of the note issue could be paid off in cash and the balance refunded into the December 1 certificates.

"Assuming a Treasury balance of 2.5 billion dollars at the close of the year, a substantial continuation of the retirement program should be possible during the first quarter of 1947, since the balance is estimated to increase by approximately 4 billion dollars out of budget surplus and the sale of nonmarketable issues. Maturities during this quarter include 11.4 billion of certificates and 1.9 billion dollars of notes. Conditional upon the continuation of inflationary pressures, cash retirements should approximately total 4 billion dollars."

Chairman Eccles stated that it was expected that within the course of the next two or three days the Treasury would make the usual informal request for the views of the executive committee on the program for further debt retirement and that he would like to discuss what the recommendations of the committee should be.

It was the consensus of the members of the full committee that, if the Treasury would be willing to reduce its balances by the required amount, it would be desirable to retire $2 billion of the November 1 certificate issue, to accept voluntary cash redemptions of the December 1 issue of certificates which might amount from $5 hundred million to $1 billion, and to pay off the entire $3.261 billion of notes maturing on December 15, 1946, but that if (because of the possibility of substantial voluntary cash redemption of December 1 certificates) the Treasury was unwilling to reduce its balances by the amount necessary to carry out this program, such amount only of the November 1 certificates should be retired as would permit the retirement of the entire issue of the December 15 notes.

Upon motion duly made and seconded, and by unanimous vote, it was agreed that the Treasury should be advised accordingly and that the letter of advice would be submitted to the members of the executive committee for approval before it was sent to the Secretary of the Treasury following receipt from the Treasury of the usual informal request for the views of the executive committee.

Chairman Eccles stated that in accordance with the procedure which had been followed by the American Bankers Association Committee on Treasury financing, he had been invited to meet with the committee when it was in Washington in August for a meeting with the Secretary of the Treasury. He reviewed briefly his discussions with the committee on Treasury financing and System credit policies.

There were then distributed copies of a statement of recommendations by representatives of commercial and savings banks, insurance companies, and investment banks during their recent meetings with the Secretary of the Treasury with respect to Treasury financing policy. This statement was in the following form:

> "Mr. Bartelt asked that I pass on to you for the confidential use of the Federal Open Market Committee, the recommendations made by the various groups that met at various times recently with the Secretary. Mr. Bartelt said that the Secretary listened to the views and recommendations of the groups and gave no indication of what he thought of the various proposals. He made it quite clear that he was not contemplating any action for the time being.
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> "The commercial banks with Burgess as their spokesman, introduced their recommendations with an endorsement of the Secretary's Press Club statement on the importance

"of a balanced budget or budget surplus. They felt that the Treasury should get in a position to meet uncertainties of the future by refunding part of the large short-term debt into longer-term debt and to get a broader distribution of the debt outside of the banks. They did not show how a broader distribution of the debt could be effected. The groups made the following specific recommendations:

"Long-term securities. All of the groups recommended a new issue of long-term restricted marketable bonds. The commercial banks said that such an issue should be made at an appropriate time. Savings banks favored the issue, but indicated that they did not have any large amount of funds for investment at present. Insurance companies stated that they have accumulated funds, but they did not reveal the amount. They also argued that the Treasury should now refund some debt into long-term bonds and take advantage of the present favorable market, because they see an increasing volume of private investments forthcoming to absorb investment funds.

"Change in E bonds. The commercial banks advocated a new savings bond that would be eligible as collateral for loans under some restricted provisions. This was on the grounds that some holders are forced to sell savings bonds at a sacrifice of income to meet temporary needs and that the change would make savings bonds more attractive and thus increase sales.

"Treasury bills. The commercial banks recommended against the issuance to the Federal Reserve of a special security bearing a low rate of interest, since such an issue would raise the question of direct dealing between the Federal Reserve and Treasury.

"Interest rates. None of the groups formally advocated higher interest rates. Mostly they were silent on the point, but when interest rates were mentioned it was in the tone that nothing need be done at the present time."

In connection with a discussion of the above recommendations, Chairman Eccles suggested that the Presidents read the statement on Government fiscal policy made by the Secretary of the Treasury at the Press Club on August 22, 1946, and it was understood that copies of the statement would be handed to the Presidents before they left Washington.

Chairman Eccles also inquired what the views of the Committee were with respect to what, if any, action should be taken at this time with respect to the posted rate on Treasury bills, the suggestion that savings bonds be made more attractive, and the suggestion that there be an issue of long-term bonds. In response to this inquiry Mr. Sproul read the following statement which he had presented at the meeting of the Presidents' Conference yesterday:

"1. When we met last June the argument on credit policy centered around whether we should follow the modest approach, using the means at our disposal in combatting inflationary trends, or whether we should say that our weapons were no longer usable or effective and that we needed substantial new powers from the Congress if we were to meet our responsibilities.

"2. The fact is that we had been and have been using the modest approach -- elimination of preferential discount rate, retirement of Government debt out of Treasury balances, increase in acceptance rates -- and that so far this approach has been measurably effective in the economic situation in which it has been used. Aggressive bank bidding for government bonds has ceased, at least temporarily, the banks have been under intermittent pressure for reserves and short-term rates of interest have risen somewhat.

"3. It is true that this is weak medicine in terms of combatting inflation -- it has done little to reduce the volume of funds already created and in the hands of the public and to increase the supply of goods and services viz-a-viz the supply of money -- but neither would the Board's ambitious proposals have accomplished anything of this sort. It has been a holding operation, while it was hoped that increased output per man-hour, the only real answer to our cost-price problem or our wage-price spiral, would come to our rescue.

"4. The next contemplated steps in the modest approach were the elimination of the 3/8 per cent bill buying and repurchase rate and the defrosting of the presently frozen 7/8 per cent certificate rate. These "are not now urgent steps -- in fact, the setback in the securities markets in recent weeks and the signs of a possible setback in business activity counsel sitting tight for the present.

"5. We should, however, be preparing for these next moves. The elimination of the 3/8 per cent bill rate offers certain difficulties, not in a market sense, but with respect to Federal Reserve earnings and the cost of servicing the Federal debt. If the fixed buying and selling rate for Treasury bills is removed, we should probably continue to hold most of the bills but the rate, if left to adjust to the market, would rise perhaps to 3/4 per cent. To meet this problem one suggestion, which Chairman Eccles has promoted, is to exchange our bills for a special Treasury demand obligation bearing, say, 1/8 or 1/4 per cent interest. This has the defect, to me the fatal defect, of unnecessarily arousing public fears of direct Treasury financing by the central banks and of placing the initiative as to our holdings and the rate to be paid on them, almost entirely with the Treasury. My own preference would be to let the rate and our earnings increase, and to restore the franchise tax on Federal Reserve Banks which would mean that the Treasury would recover its 'losses'. An appropriate time and place for the restoration of the tax would be as an amendment to the F.D.I.C. bill for return of its capital to the Federal Reserve Banks and the Treasury. It was in connection with the provision of this capital that the franchise tax was abolished. If it be argued that this is to postpone and delay unduly adjustment of the situation, a compromise might be possible. I don't like it particularly, but it would be better than the special demand obligation. At the appropriate time, we could begin to bid for Treasury bills, say at 1/8 or 1/4 of 1 per cent, tendering our maturing bills in exchange for those awarded to us. In this way we would avoid a special certificate, keep our investments in market obligations, reduce our earnings, and avoid increasing the cost of servicing the public debt.

"6. Elimination of the 3/8 per cent bill rate is a largely meaningless procedure, however, except as it might temporarily create uncertainty and except to the extent that it would get rid of the hocus-pocus we now go through to replace our maturing bills. To have real "meaning elimination of the 3/8 per cent bill rate should be the prelude to abandonment of the fixed 7/8 per cent certificate rate, and to our partial escape from the straightjacket of the fixed pattern of rates. Admittedly a rise in certificate rate to 1 or 1-1/4 per cent would not halt inflation and we would still have to provide market support, but it would create a new situation in which uncertainty as to future rates would increase, sales of old certificates to us would be made at a loss, the spread between short and long-term yields would be narrowed, and banks would, in my opinion, be more cautious about making longterm investments, term loans, etc. And on the side of cost to the Treasury there is really little argument. The annual interest charge on the $70,000,000,000 of governments maturing before December, 1950, excluding bills, is about $1,000,000,000 or 1.43 per cent. If all of these securities were refunded at 1-1/4 per cent the annual service cost to the Treasury would be reduced about $125,000,000.

"7. That you might say, however, would be the reverse of funding some of the debt, which is what is being widely recommended. In present circumstances, however, the only funding of the debt which has real meaning is the sale of securities to non-bank investors -- it is not merely lengthening maturities and raising coupons no matter who buys the securities. Sales within the banking system could well be made at lower rates and with shorter maturities even than during the war.

"8. For the non-bank investor, I still think a long-term 2-1/2 per cent obligation without roll-over possibilities would be appropriate and desirable toward the end of the year, and that sales of savings bonds to small investors should be stepped up faster and further -- if necessary by reimbursing those who operate pay roll reduction plans for out-of-pocket expenses and by sweetening up the terms of the Series 'E' bond itself.

"9. Finally, of course, the Treasury should continue debt redemption out of balances, and next year out of its cash surplus even though the budget is in deficit. And there should be further strenuous efforts to convert that deficit into surplus."

There was a discussion of the proposals contained in Mr. Sproul's statement and particularly of the type and timing of a security that might be issued as a medium for investment of accumulated savings funds.

Chairman Eccles inquired whether there was any objection to the suggestion that there be made available a special long-term issue to absorb accumulated savings in cases where that demand was not now met by the Series G savings bond, it being understood that investors in the new security would have to demonstrate that they had accumulated savings in the amount of the securities purchased and were not selling marketable issues in order to acquire the new issue. There was no objection to such a program.

In response to an inquiry as to whether Series E bonds should be made eligible as collateral for bank loans, Mr. Young answered in the affirmative and Mr. McLarin suggested that in order to increase the inducement to hold series E bonds to maturity the Treasury might offer a more attractive bond in exchange for maturing series E bonds. This and other possibilities for making series E bonds more attractive were discussed, such as some change which would enable the owners of maturing series E bonds to reinvest their funds at the 2.9 per cent rate. There was no objection on the part of the members present to the adoption by the Treasury of some suggestion of the latter kind, although it was pointed out that it might not be desirable to continue such a program into a period of recession when the emphasis would be placed on spending to maintain employment.

In connection with the discussion of the question whether any action should be taken at the present time with respect to the buying rate on Treasury bills, Chairman Eccles stated that while the present retirement program continued there was no need for action on the bill rate but that it should not be continued too long.

Mr. Sproul suggested that the present arrangement with respect to bills was working without disturbance to the market and that, as the amount of bills held by the Federal Reserve Banks increased, the posted rate and repurchase option became less important and more within the control of the Federal Open Market Committee.

In the course of a discussion of the steps that might be taken in connection with the elimination of the buying rate on Treasury bills, there were distributed copies of (1) a memorandum prepared by Mr. Kennedy discussing actions that might be taken with respect to Treasury bills, and (2) a memorandum prepared at the Federal Reserve Bank of New York submitting a plan for eliminating the buying rate on bills and issuing new bills under an arrangement which would permit the payment for new issues by the surrender of maturing issues without preferential allotment on exchange tenders.

Chairman Eccles raised a question as to the date for the next meeting of the Committee and suggested that, inasmuch as it might be desirable to take action on the posted rate on Treasury bills before the end of the year, it might also be desirable for the Committee to meet in December.

In the course of a discussion of actions that might be available to the System in carrying out System credit policies, Chairman Eccles stated that, if the debt retirement program were carried into 1947, the buying rate on Treasury bills were eliminated, and reserve requirements of member banks in central reserve cities were increased to the maximum permitted under existing law, it might be possible to exert such an influence in the money market during the period of threatened inflation that further steps such as those referred to in the Board's annual report for 1945 would not be necessary.

> At the conclusion of a discussion, upon motion duly made and seconded, it was voted unanimously (1) that no action should be taken at this time to change the direction issued by the Committee on March 1, 1945, with respect to the purchase of Treasury bills by the Federal Reserve Banks, and (2) to issue the following direction to the executive committee, with the understanding that the limitations contained in the direction would include commitments for purchases and sales of securities for the System open market account:

> The executive committee be 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 practical administration of the account or for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury issuing rates of 7/8 per cent for one-year certificates and 2-1/2 per cent for 27-year bonds restricted as to ownership; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) 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.
>
> That the executive committee be 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 amount of such certificates held in the account at any one time shall not exceed $1,500,000,000.

Chairman Eccles reviewed for the information of the members of the full committee the discussion at the meeting of the executive committee this morning in connection with the questions presented in the memorandum prepared by the staff group on foreign interests under date of May 1, 1946, with respect to relationships of the Federal Reserve System to the Bretton Woods institutions. It was stated that the executive committee had voted to recommend to the full committee that it authorize direct transactions in Government securities for the System open market account with the International Monetary Fund and International Bank for Reconstruction and Development, for the purposes stated in the memorandum from the staff group, without following the usual procedure of effecting transactions in the market, and that the memorandum of the staff group be placed on the agenda for consideration at the next meeting of the full committee.

After discussion, upon motion duly made and seconded, and by unanimous vote, the recommendation of the executive committee was approved.

There was a further reference to the time of the next meeting of the Federal Open Market Committee and the members of the Committee concurred in a suggestion by Chairman Eccles that the date for the meeting be set tentatively for the week of December 9, 1946, with the understanding that if the executive committee, not later than November 15, 1946, should feel that a meeting need not be held in December, the members of the full Committee would be advised accordingly and the meeting would not be held until after the first of next year.

Thereupon the meeting adjourned.

Approved: M S Eccles
Chairman.

Chester Morrill
Secretary.