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 Wednesday, March 1, 1950, at 9:40 a.m.

PRESENT: Mr. Sproul, Vice Chairman
Mr. Davis
Mr. Draper
Mr. Eccles
Mr. Erickson
Mr. Peyton
Mr. Szymczak
Mr. Young

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Thomas, Economist
Messrs. Stead and John H. Williams, Associate Economists
Mr. Rouse, Manager of the System Open Market Account
Mr. Thurston, Assistant to the Board of Governors
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Young, Director of the Division of Research and Statistics, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors
Mr. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York

Messrs. Williams, Gidney, Gilbert, and Leedy, alternate members of the Federal Open Market Committee

Messrs. Leach, McLarin, and Earhart, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

The Secretary reported that advices of the election for a period of one year commencing March 1, 1950, of members and alternate members of the Federal Open Market Committee representing the Federal Reserve Banks had been received, that each newly elected member and alternate member had executed the required oath of office, and that it was the opinion of the Committee's counsel, on the basis of advices received, that the following members and alternate members were legally qualified to serve:

Allan Sproul, President of the Federal Reserve Bank of New York, with L. R. Rounds, First Vice President of the Federal Reserve Bank of New York, as alternate member;

Joseph A. Erickson, President of the Federal Reserve Bank of Boston, with Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, as alternate member;

C. S. Young, President of the Federal Reserve Bank of Chicago, with Ray M. Gidney, President of the Federal Reserve Bank of Cleveland, as alternate member;

Chester C. Davis, President of the Federal Reserve Bank of St. Louis, with R. Randle Gilbert, President of the Federal Reserve Bank of Dallas, as alternate member;

J. N. Peyton, President of the Federal Reserve Bank of Minneapolis, with H. G. Leedy, President of the Federal Reserve Bank of Kansas City, as alternate member.

Upon motions duly made and seconded, and by unanimous votes, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1951, with the understanding that in the event of the discontinuance of their official connection with the Board of Governors or a Federal Reserve Bank, as the case might be, they would cease to have any official connection with the Federal Open Market Committee. In connection with the election of Mr. Morrill, it was agreed unanimously that the by-laws of the Federal Open Market Committee, which provide that the Secretary of the Board of Governors shall be Secretary of the Committee, should not be changed but that Mr. Morrill should continue to serve as Secretary notwithstanding the applicable provision of the by-laws:

Thomas B. McCabe, Chairman
Allan Sproul, Vice Chairman
Chester Morrill, Secretary
S. R. Carpenter, Assistant Secretary
George B. Vest, General Counsel
Woodlief Thomas, Economist
John K. Langum, Alfred C. Neal, J. Marvin Peterson, William H. Stead, and John H. Williams, Associate Economists

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after February 28, 1951.

Mr. Sproul stated that the board of directors of the Federal Reserve Bank of New York had selected Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System account and his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

Upon motions duly made and seconded, and by unanimous votes, the following were selected to serve with the Chairman of the Federal Open Market Committee (who under the provisions of the by-laws is also Chairman of the executive committee) as members and alternate members of the executive committee until (except as noted below) the selection of their successors at the first meeting of the Federal Open Market Committee after February 28, 1951:

Members	Alternate Members
Marriner S. Eccles	*James K. Vardaman, Jr.
*James K. Vardaman, Jr.	M. S. Szymczak
*Rudolph M. Evans	E. G. Draper
	Successor to Mr. Draper as a member of the Board
	Successor to Mr. Clayton as a member of the Board
	(To serve in the order named as alternates for members elected from the Board of Governors)
Allan Sproul	Joseph A. Erickson
C. S. Young	Chester C. Davis
	J. N. Peyton
	(To serve in the order named as alternates for Messrs. Sproul and Young)

*Mr. Vardaman to serve as a regular member until Mr. Evans is available for service, after which the latter will serve as a regular member until the selection of his successor at the first meeting of the Federal Open Market Committee after February 28, 1951.

Mr. Sproul referred to the resolution adopted by the Federal Open Market Committee on November 20, 1936, authorizing each Federal

Reserve Bank to purchase and sell, at home or abroad, cable transfers and bills of exchange and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries. He stated that accounts were now maintained with the Bank of Canada ($22,150), the Bank of England ($10,952), and the Bank of France ($42.79), and that, for reasons discussed at previous meetings, it seemed desirable that the authority to effect transactions of the type deferred to be continued.

> Upon motion duly made and seconded, and by unanimous vote, it was agreed that no action should be taken at this time to amend or terminate the resolution of November 20, 1936.

Reference was then made to the action of the Committee on November 30, 1937, by which it agreed that since securities acquired by the Federal Reserve Banks in settlement of claims against closed banks would be in such small amounts as to be unimportant from the standpoint of credit control, the Federal Open Market Committee would interpose no objection to a Federal Reserve Bank holding such securities or to their sale whenever such sale was deemed advisable by the holding bank. Mr. Gidney stated that the authority for holding and selling such securities had done no harm and, conceivably, there could be circumstances in which it might be useful.

Upon motion duly made and seconded, and by unanimous vote, it was agreed that no action should be taken at this time to amend or terminate the authority granted at the meeting on November 30, 1937.

There followed a discussion of the authority granted to the Federal Reserve Banks by the Federal Open Market Committee with respect to repurchase agreements covering short-term Treasury obligations with nonbank dealers in United States Government securities qualified to transact business with the System open market account.

Mr. Rouse stated that the authority had been used sparingly during the past year but that it had been helpful in making adjustments in the market in August and in early October. He went on to say it was one means of putting funds into the market in periods of strain to help in carrying out the policies of the Committee and that it might be particularly helpful in a period like the present when the discount rate was considerably higher than short-term market rates. He suggested that the authority be continued but that, instead of relating the rate on such purchases to the discount rate, it be related to the rate on short-term Government securities. To carry out this suggestion, he proposed that the authority be amended to provide for a rate at least 1/8 per cent above the average issuing rate on the most recent issue of United States Treasury bills, and that the authority be used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds to avoid undue strain on a day-to-day basis.

Mr. Eccles raised the question whether the Federal Reserve Banks should continue to be in the position of direct lenders to nonbank dealers but stated that he would have no objection to continuance of the authority if it was clearly understood that it was to be used only in emergencies.

During a discussion of this question, Mr. Thomas expressed the view that the authority was an important money-market instrument which would enable dealers to absorb as much of the buying and selling in the market as possible and to carry the necessary inventory of securities to provide a market, leaving the System as only a residual buyer, that it should be used more extensively than it had been as a means of helping to provide the market with additional bank reserves to meet shortages of a strictly temporary nature, and that in his opinion the commercial banks would favor use of such authority because it enabled securities dealers to perform their function more effectively and reduced the necessity for banks to borrow from the Federal Reserve Bank for temporary reserve adjustments.

In commenting on the manner in which the proposed arrangement would operate, Mr. Rouse brought out that it would be used only in the discretion of the Federal Reserve Banks, that it would be used primarily if not exclusively by the Federal Reserve Bank of New York, and only under the conditions which he had outlined. In response to a question, he also stated that he would expect that changes in the rate on such agreements would be in steps of 1/8 per cent, although it was possible that changes of 1/16 per cent might be desirable at times.

At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Banks were authorized, in lieu of all similar previous authorizations, 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, provided that: (1) such agreements (a) are at a rate at least 1/8 per cent above the average issuing rate on the most recent issue of United States Treasury bills, (b) are for periods of not to exceed 15 calendar days, (c) cover only short-term Government securities selling at a yield of not more than the issuing rate for one-year Treasury obligations, (d) are used with care and discrimination as a means of providing the money market with sufficient Federal Reserve funds as to avoid undue strain on a day-to-day basis, (2) reports of such transactions shall be made to the Manager of the System Open Market Account to be included in the weekly report of open market operations which is sent to the Federal Open Market Committee, and (3) in the event Government securities covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, the securities thus acquired by the Federal Reserve Bank are sold in the market or transferred to the System open market account.

This action was taken with the understanding that the authority would be reviewed at the next meeting of the Committee.

In connection with the existing procedure for the allocation of securities in the System open market account adopted by the executive committee of the Federal Open Market Committee on January 20, 1948, pursuant to the action of the full Committee on December 9, 1947, Mr. Rouse stated that there had been no criticism of the procedure and that it was working very satisfactorily. He added that the actual distribution among the twelve Federal Reserve Banks of earnings from securities held in the System open market account during the year 1949 turned out to be very close to the estimate of expenses for the year made at the beginning of 1949.

In this connection, Mr. Rouse read the statement submitted by Mr. Alfred H. Williams to the Joint Committee on the Economic Report in November 1949 in response to a request by members of the Committee for a statement of the procedure followed by the System in allocating interest bearing securities in the System open market account.

Mr. Sproul asked whether any of the Presidents of the Federal Reserve Banks had suggestions as to a change in the procedure and none of them indicated that he would modify it at this time.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, it was agreed that no change should be made at this time in the method of allocating securities as set forth in the memorandum approved at the meeting of the executive committee on January 20, 1948.

Reference was made to the published terms on which the Federal

Reserve Bank of New York transacts business with qualified dealers in United States Government securities for the open market account of the Federal Reserve System. Mr. Rouse said that the agreement seemed to be working satisfactorily, that there had been no complaints for some time from dealers who were unable to qualify under the statement of terms, and that he had no changes to suggest. In response to a question from Mr. Eccles, he also reviewed the circumstances relative to whether certain dealers qualified for transacting business with the System account.

Following a discussion, upon motion duly made and seconded, and by unanimous vote, it was agreed that no change in the statement of terms would be made at this time.

With reference to the authority for distribution of the weekly open market report prepared by the Federal Reserve Bank of New York as agreed upon at the meeting on March 1, 1947, Mr. Davis suggested that it be amended to provide that, in addition to those now receiving the report, it be sent to the economists of the Federal Reserve Banks which are not represented by their Presidents on the Federal Open Market Committee.

Following a brief discussion, upon motion duly made and seconded, and by unanimous vote, the distribution of the weekly report to the following was approved:

1. The members of the Board of Governors.
2. The Presidents of the 12 Federal Reserve Banks.

3. The Secretary, the Economist, and the Associate Economists of the Federal Open Market Committee.
4. The Secretary of the Treasury.
5. The Under Secretary of the Treasury.
6. The Fiscal Assistant Secretary of the Treasury.
7. The Chief of the Division of Bank Operations of the Board of Governors.
8. The officer in charge of research at each of the Federal Reserve Banks which is not represented by its President on the Federal Open Market Committee.
9. Mr. Rounds, alternate member of the Federal Open Market Committee; the Assistant Vice President of the Federal Reserve Bank of New York working under the Manager of the System Account; the Manager of the Securities Department of the New York Bank; the Manager of the Research Department of the New York Bank; and the confidential files of the New York Bank as agent for the Federal Open Market Committee.

Reference was made to the memorandum prepared by the System Research Advisory Committee on New Treasury Financing in 1950 and to the memorandum prepared in the Board's Division of Research and Statistics under date of February 21, 1949, on the outlook for bank reserves and Treasury cash requirements, to which Mr. Thomas referred in his report at the meeting of the Committee on February 28, 1950.

There followed a general discussion of the deficit financing which the Government would have to undertake to meet requirements during the last nine months of the current calendar year and of the sources from which funds might be obtained.

In commenting on the outlook, Mr. Thomas expressed the view that substantial amounts of funds could be obtained from nonbanking sources, that the Treasury might wish to raise new money by increasing the weekly bill offering, but that additional funds would have to be raised by other means in the last half of the year and the question was how that should be done. Mr. Thomas also said that a 1 3/4 per cent bond callable in eight years, which was recommended to the Treasury by the American Bankers Association Committee on Government Borrowing, would be taken almost entirely by the banks, and that the question was what type of security could be issued to attract some of the longer term savings which probably would become available during the second quarter of this year and later. He then referred to the suggestions presented in the memorandum on new Treasury Financing in 1950 of a 2 1/2 per cent investment bond with an 18-year maturity which would be nonmarketable but redeemable at a penalty, and of an instalment retirement bond which would have a maturity of 28 years and would yield 2.52 per cent if held to maturity.

There was a discussion of the possible attractiveness of such obligations to various classes of investors, during which Mr. Thomas suggested that it would be desirable to authorize the staff to discuss these proposals with Messrs. Bartelt, Fiscal Assistant Secretary of the Treasury, and Haas, Director of the Technical Staff of the Treasury. In this connection, Mr. Sproul read the next to the last paragraph of the letter from the executive committee to Secretary of the Treasury Snyder dated February 9, 1950, commenting on the Treasury's problem of raising new money to meet the Treasury deficit during the remainder of this calendar year and stating that the Open Market Committee would be giving further consideration to this important aspect of Treasury financing and would want to discuss it with him when it had more specific proposals. Mr. Sproul suggested that the Committee authorize the executive committee to proceed with the development of proposals in line with the general statement contained in that letter and that, as proposed by Mr. Thomas, it also authorize the discussion of the specific proposals in the memorandum on New Treasury Financing in 1950 from the System Research Advisory Committee with the members of the Treasury staff, with the understanding that if other suggestions of a similar nature were developed they would be included in the discussions.

Upon motion duly made and seconded, and by unanimous vote, Mr. Sproul's suggestion was approved.

In a consideration of the instructions to be issued to the executive committee, reference was made to the understanding at the meeting on December 13, 1949, that the Federal Reserve Bank of New York should be guided in the redemption and replacement of System maturing bill holdings by what would be required in the light of current conditions in the money market to carry out the general credit policy of the Federal Open Market Committee. Following a brief discussion, it was agreed that no change should be made at this time in that understanding.

Mr. Sproul then referred to the action at the meeting on December 13, 1949, at which the executive committee was authorized to determine from time to time the exact ranges within which bills and certificates would be purchased by the Federal Reserve Bank of New York for the System open market account, it being understood that the upper limits of the ranges on bills and certificates could be increased to not to exceed 1.24. He stated that it was understood that this authority was to be exercised within the framework of the general credit policy of the Federal Open Market Committee, and suggested that it be reaffirmed.

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

There followed a discussion of the understanding at the meeting on December 13, 1949, that, in the light of the discussion at that meeting, the executive committee would have discretion with respect to the sale of long-term restricted bonds from the System account. Mr. Sproul stated that the executive committee had been operating within the limits of that understanding, and reference was made to an excerpt from the minutes of the meeting of the executive committee on January 6, 1950, concerning the current understanding that restricted bonds would be sold from the System account, whenever an opportunity was presented, for the primary purpose of absorbing reserves.

During a discussion of the sales of long-term securities from the System account since the last meeting of the Committee, Mr. Rouse stated that the demand for these issues had not been large, that the operation had to be handled carefully, that a further decline of prices could take place without loss of confidence in the market, that sales in the succeeding weeks would be in smaller amounts than during the past six or seven weeks, and that it would help in bringing long-term prices down if there could be some further rise in short-term rates.

It was suggested that in the interest of placing long-term securities, to be offered by the Government in connection with new financing, in the hands of nonbank investors it would be desirable for long-term yields to move to a higher level. In a further discussion of the securities that should be offered by the Treasury to finance the Government deficit, Mr. Thomas raised the question as to previous instructions that long-term securities should be sold for the purpose of absorbing reserves. While there were additional reserves to absorb after the turn of the year, he said, it was not likely that there would be in future weeks and hence any sale of bonds by the System would have to be offset by System purchases of short-term securities.

During the consideration of this point, Mr. Sproul suggested that operating under the general direction issued by the Federal Open Market Committee to the executive committee, and within the limits imposed by the terms of Treasury financing and by the necessity of avoiding loss of confidence in the long-term Government securities market, the executive committee should have authority to continue to sell long-term securities from the System account unless and until there was a change in the business and credit situation which made it undesirable to pursue that policy.

Upon motion duly made and seconded, and by unanimous vote, Mr. Sproul's suggestion was approved.

Mr. Sproul referred to the letter sent to the Treasury by the Board of Governors under date of January 23, 1950, regarding the extension of the limited authority of the Federal Reserve Banks to purchase Government securities directly from the Treasury. He inquired whether there had been any developments in connection with the matter. Mr. Szymczak responded that the Treasury favored the extension and presumably would propose the necessary legislation.

In the ensuing discussion the opinion was concurred in that the continuation of the authority was desirable to meet wide fluctuations in Treasury balances with the Federal Reserve Banks and that the authority probably would be used again during the March tax payment period.

Consideration was then given to the general direction to be issued to the executive committee to arrange for transactions in the System account and it was agreed that the limits in the direction issued at the meeting on December 13, 1949, should be continued and that there should be no change in the form of the direction issued at that time.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously with the understanding that the limitations contained in the direction would include commitments for the System open market account:

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary, in the light of changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the needs of commerce and business; 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.

Attention was then called to a revised draft of a memorandum on the framework of System credit operations which had been distributed to the members of the Committee before this meeting and to the understanding at the meetings on August 5, 1949, and December 13, 1949, that further study would be given to the matter.

Mr. Sproul suggested that the Committee authorize the System Research Committee on Banking and Credit Policy to give further study to the principles and practices of a flexible monetary policy with a view to submitting other reports to the Federal Open Market Committee on important aspects of this study, and that it be understood that the members of the Federal Open Market Committee and the Presidents of the Reserve Banks who were not members of the Committee would read the revised memorandum furnished them at this meeting and send any suggestions they might have to the Secretary of the Committee.

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

Reference was made to a memorandum dated February 23, 1950, with respect to whether Treasury savings bonds should be made eligible as collateral for bank loans. Copies of the memorandum had been sent to the members of the Committee before this meeting and a copy has been placed in the files of the Federal Open Market Committee.

Mr. Davis stated that the question had been discussed at the Presidents' Conference on February 27, 1950, and that it was the majority view of the Presidents that such bonds should not be made eligible.

In a discussion of reasons for and against such action, Mr. C. S. Young stated that many banks were, in effect, holding such bonds as collateral for loans and that he felt it would be desirable for the Treasury to recognize this practice by authorizing it, that it would avoid sales of bonds by owners to get funds for temporary purposes, and that it might aid the sale of savings bonds by the Treasury.

Mr. Thomas stated that he understood from Mr. Bartelt, Fiscal Assistant Secretary of the Treasury, that the Treasury would not favor such action at this time.

Question was raised whether some action should be taken with respect to the reporting by bank examiners of cases in which savings bonds are, in effect, pledged as collateral for loans, but no conclusions were reached.

During the ensuing discussion it was the consensus that no action should be taken at this time to recommend to the Treasury any change in the existing regulations which prohibit the acceptance of savings bonds as collateral for loans.

Reference was then made to the progress report dated February 24, 1950, from the ad hoc committee on debt management on the problem of savings bonds refunding, a copy of which had been sent to each member of the Committee before this meeting and a copy of which has been placed in the files of the Federal Open Market Committee. It was stated that this matter was to be discussed at the Fiscal Agency

Conference called by the Treasury to meet in April 1950, at which time primary consideration was to be given to the operating problems that will be involved as savings bonds mature, and the suggestion had been made that there might also be discussion, in the light of the operating problems involved, of the policy that might be followed with respect to inducements to reinvest the proceeds of maturing bonds in new savings bonds.

In this connection, Mr. Davis stated that the operating officers of the Federal Reserve Banks who attend the fiscal agency conferences have no responsibility for policy on fiscal agency matters, but that since the Federal Reserve Bank of San Francisco was acting as host for the forthcoming conference, the Presidents' Conference had asked President Earhart to represent the Presidents in any discussions involving questions of policy.

Under the circumstances, it was understood that further discussion by the Federal Open Market Committee of the refunding of maturing savings bonds would be postponed until a later meeting of the Committee.

There was also an informal discussion of the part the Federal Reserve Banks might be expected to play in future savings bond campaigns and whether there should be any change in the existing understanding with respect to the Federal Reserve Banks sponsoring and paying the costs of dinners, etc., in connection with such campaigns.

It was the consensus of the Presidents of the Federal Reserve Banks that there should be no change in the existing understanding, and that this would not prevent, for example, a Bank from providing a luncheon in connection with a discussion meeting to which a State chairman wishes to invite some of his key workers.

It was tentatively agreed that the next meeting of the Committee would be held during the week beginning June 12, 1950.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Allan Sproul
Vice Chairman.