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 Monday, October 30, 1950, at 12:05 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Davis
Mr. Erickson
Mr. Evans
Mr. Norton
Mr. Peyton
Mr. Powell
Mr. Szymczak
Mr. Vardaman
Mr. C. S. Young

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Rouse, Manager, System Open Market Account

Chairman McCabe reviewed a discussion in which he participated with Secretary of the Treasury Snyder on Thursday, October 26, 1950, and outlined the reasons why he felt it was desirable to address a letter to Secretary Snyder stating in brief form the policy of the Committee with respect to (1) the maintenance of the 2-1/2 per cent rate on the longest term Government securities now outstanding and (2) the rate on short-term securities on a one-year basis. He said that a draft of such a letter had been prepared for consideration by the Committee at this meeting.

Copies of the draft were distributed and in the ensuing discussion a number of changes were suggested. During a recess for luncheon a revised draft of the letter was written to include the changes proposed during the earlier session and when the meeting reconvened at 2:15 p.m. further changes were made.

At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, the letter was approved as follows, with the understanding that it would be sent by messenger to Secretary Snyder this afternoon.

"Since our meeting on Thursday, October 26, a meeting of the Federal Open Market Committee has been held. The Committee has been and is in complete agreement that under present conditions it is necessary to protect the 2-1/2 per cent rate (par) on the longest term Treasury bonds now outstanding. The Committee's policies have been determined in accordance with that conclusion.

"For the reasons outlined in my letter of October 16, 1950, the Committee is convinced that continued flexibility in the short-term money market is essential to carrying out an effective credit policy. It believes, however, that for the present the market yield on Government securities on a one-year basis (now about 1-1/2 per cent) may have worked as high as is necessary in the light of present economic conditions and as high as it can without having such an impact on the market for the longest term Government securities as might interfere with our policy of credit restraint. Accordingly, for the present, the Committee will endeavor to maintain an orderly and flexible market within a maximum of 1-1/2 per cent per annum for any securities maturing within one year.

"If further inflationary or market forces should develop at any time in the future which would make it necessary for the Committee to reconsider these decisions, we would, of course, feel it desirable and compelling to seek your counsel. In the meantime, we should like to consult with you freely concerning our mutual problems in the light of market developments and the general credit situation."

Chairman McCabe raised the question whether any change should be made in the understanding arrived at in the last meeting of the full Committee with respect to the prices at which Government securities would be purchased for the System open market account. The matter was discussed in the light of the statement at the last meeting of the executive committee that the main purpose of System policy was to avoid putting funds into the market, that purchases of bonds should be for the purpose of supporting that objection, and that the timing and volume of bond purchases would depend on market conditions and if fewer funds would be put into the market by permitting a gradual decline in prices of the long-terms that course should be followed, but that if after the short-term rate were increased or for any other reason offerings of bonds were heavy it would be desirable to let the prices decline rapidly to between 4/32 and 8/32 above par.

Mr. Rouse outlined the reasons why he felt that no change should be made in the present understanding and why the actions taken by the New York Bank since the last meeting of the executive committee were in accordance with that understanding.

Chairman McCabe inquired whether anything would be gained by bringing about some slight movement up and down in the market prices of long-term Government bonds, and Mr. Rouse said that, while such a procedure might have some advantages, it might also result in the System taking more bonds than otherwise would be the case. Mr. Sproul added that, with the amount of institutional selling that was overhanging the market because of prior commitment of funds and not because of price factors, it might be unwise to lower current market prices substantially, thus running the risk of causing a large volume of additional sales by other holders who might become alarmed. While he thought it might be feasible to bring about some slight movement up and down in the prices of long-terms he was not sure what the result would be.

At the conclusion of the discussion of this point, it was agreed that no change should be made in the existing understanding or the procedure being followed in connection with it.

Mr. Rouse commented that the Treasury would soon be faced with the task of refunding $2.6 billion of bonds maturing on December 15, 1950, and $5.4 billion of certificates maturing on January 1, 1951, that it was possible that the Treasury might wish to refund these maturities in one operation, and that it was important that there be stability in market prices for a period of some three weeks before the books were closed in order to insure the success of the new offering.

In a discussion of whether the full Committee should meet to discuss the recommendations to be made to the Treasury with respect to the financing, it was suggested that since the American Bankers Association Committee on Government Borrowing was to meet with the Secretary of the Treasury on November 14 and 15, it would be desirable for the executive committee to meet shortly thereafter for the purpose of considering the recommendations to be made to the Treasury with respect to the refunding with the understanding that, if necessary, the views of the executive committee could be checked with the members of the full Committee by telephone.

It was agreed unanimously that the executive committee should meet upon call of the Chairman for the purpose referred to.

It was also agreed unanimously that no action should be taken at this meeting to change the direction issued at the meeting of the Committee on October 11, 1950, nor the understandings reached at that meeting as to the carrying out of this direction.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.