

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Monday, October 6, 1947, at 9:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Draper  
Mr. Vardaman  
Mr. Davis

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Vest, General Counsel  
Mr. Thomas, Economist  
Mr. Rouse, Manager of the System Open Market Account  
Mr. Thurston, Assistant to the Chairman, Board of Governors  
Mr. Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors  
Mr. Arthur Willis, Special Assistant, Securities Department, Federal Reserve Bank of New York.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on August 6, 1947, were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account as reported to the members of the executive committee for the period August 6 to October 4, 1947, inclusive, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the actions of the members of the executive committee on

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September 4 and 29, 1947, increasing from \$1 billion to \$1.5 billion and from \$1.5 billion to \$1.75 billion, respectively, the authority of the Federal Reserve Bank of New York as contained in the first paragraph of the direction authorized at the meeting of the executive committee on August 6, 1947, were approved, ratified and confirmed.

Reference was then made to the decision reached at the meeting of the executive committee on February 17, 1947, that at a meeting in the fall the executive committee would ask the full Committee to consider suggestions to be made to the Treasury relating to policy in 1948 in connection with the offering of a special security to encourage holders of maturing savings bonds to reinvest the proceeds of such bonds in the special issue. At the time of the February meeting consideration was being given to a draft of a letter to the Treasury which would suggest that the individual holders of maturing savings bonds be given the option to invest in new Series E bonds or a special non-marketable 10-year issue which would carry a rate of 2-3/4 per cent, payable annually, and would be redeemable at any time after one year.

Mr. Sproul stated that this matter had been discussed at the meeting of the Presidents' Conference held last week but that, having in mind that the subject was on the agenda for this meeting, no resolution or specific action had been taken in connection with it, although it was the general feeling that it might be

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desirable to send to the Treasury the recommendation contained in the draft of letter referred to above. It was Mr. Sproul's view that the offering of some encouragement for reinvestment by maturing bondholders was more desirable this year than last because of the importance of keeping as many funds as possible from going into the spending stream and he saw no reason why, if the Treasury was going to offer some special inducement later on to the holders of maturing savings bonds, that inducement should not be given now.

Chairman Eccles questioned the desirability of offering a 2-3/4 per cent security for the reason that it would leave little or no inducement for holders of maturing savings bonds to reinvest in new Series E bonds which if held for ten years would give a return of 2.9 per cent. He felt that 2-1/2 per cent would be more effective in achieving the desired objectives and would be more in line with the return on funds placed in other forms of savings. He also felt that the suggestion of a 2-3/4 per cent security would not be acceptable to the Treasury.

Upon suggestion by Mr. Sproul, it was agreed unanimously to suggest to the full Committee that a recommendation be sent to the Treasury that individual holders of maturing savings bonds be permitted to invest funds received in payment for such bonds in (1) new Series E bonds without regard to the annual limit of

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\$3,750, or (2) a special non-marketable  
10-year issue which would carry a 2-1/2  
per cent coupon and be redeemable at any  
time after one year.

Thereupon the meeting recessed to reconvene following the  
meeting of the full Committee.

Chester Morrill  
Secretary.

Approved:

W. C. ...  
Chairman.

The meeting of the executive committee of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, October 7, 1947, at 5:30 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Draper  
Mr. Davis  
Mr. Szymczak (alternate for Mr. Vardaman)

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Thomas, Economist  
Mr. Rouse, Manager of the System Open Market Account  
Mr. Smith, Economist, Government Finance Section, Division of Research and Statistics, Board of Governors

There was a discussion of the authority to be given to the Federal Reserve Bank of New York to execute transactions in the System account pending another meeting of the committee and it was agreed that the existing direction to the New York Bank should be revised to conform to the direction issued by the Federal Open Market Committee to the executive committee at the meeting of the full Committee this morning, and that the limitation contained in the first paragraph of the executive committee's direction should be fixed at \$1 billion.

In the past the direction to the New York Bank had included a third paragraph which stated that upon approval by a majority of the members of the committee, which might be obtained by telephone,

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telegraph, or mail, the New York Bank would be directed to make such other purchases, sales, or exchanges for the System account as might be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee. Since it was understood that this procedure would be followed whenever conditions made it desirable, the members of the committee agreed that it would not be necessary to include the paragraph in future directions issued to the Federal Reserve Bank of New York.

Thereupon, upon motion duly made and seconded, the executive committee voted un-animously to direct the Federal Reserve Bank of New York, until otherwise directed by the executive committee,

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, as may be necessary, in the light of the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market more closely to the needs of commerce and business; provided that the total amount of securities in the account at the close of this date shall not be increased or decreased by more than \$1,000,000,000 exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction;

(2) To purchase direct from the Treasury for the System open market account such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held in the account at any one time shall not exceed \$750,000,000.

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In taking this action it was understood that the limitation contained in the direction included commitments for purchases and sales of securities for the System account.

In connection with a discussion of the program as outlined at the meeting of the Federal Open Market Committee this morning and of the recommendations to be made to the Treasury with respect to Treasury financing policy, Mr. Rouse said that he had been talking with Fiscal Assistant Secretary of the Treasury Bartelt who stated that he expected to call Chairman Eccles today and request the views of the committee in connection with the November refunding or payment of the November 1 issue of Treasury certificates.

It was agreed that the memorandum to be sent to the Treasury on Treasury financing should go beyond the decision to be made with respect to the November 1 certificates and should propose the program to be followed through the remainder of 1947, should give the background for the recommendations made, and should outline the program agreed upon at the meeting of the Federal Open Market Committee for dealing with the inflationary situation.

It was also understood that, following their return to New York, Messrs. Sproul and Rouse would prepare a draft of the statement to be sent to the Treasury, that another draft would be prepared in the Board's offices, that the members of the executive committee would meet in Washington on the morning of

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Tuesday, October 14, 1947, to put the memorandum in final form, and that Chairman Eccles would tell Under Secretary of the Treasury Wiggins in general terms what the committee was considering and would undertake to make an appointment to meet with representatives of the Treasury for a discussion on the afternoon of that day.

Mr. Davis stated that he would not be able to meet in Washington on October 14 but that if the draft of statement were sent to him by wire or mail he would communicate his views to the committee before the meeting at the Treasury.

Thereupon the meeting adjourned.

Chesler Morris  
Secretary.

Approved:

W. A. Eccles  
Chairman.