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 4, 1948, at 9:40 a.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Szymczak
Mr. Williams

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 Board of Governors
Mr. Riefler, 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 held on September 8, 1948, were approved.

Upon motion duly made and seconded, and by unanimous vote, the following actions of the members of the executive committee on the dates shown, taken to increase the authority of the Federal Reserve Bank of New York to execute transactions for the System open market account, were approved, ratified, and confirmed:

1. On September 23, 1948, changing the last part of paragraph (1) of the direction issued to the Federal Reserve Bank of New York at the meeting of the executive committee on September 8, 1948, to read as follows: "provided that the total amount of securities in the account at the close of business on May 20, 1948, shall not be increased or decreased by more than $3,000,000,000, exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction;"

2. On September 27, 1948, increasing from $3 billion to $3.5 billion the limitation contained in paragraph (1) of the direction issued at the meeting on September 8, 1948, as amended by the action taken on September 23, 1948.

3. On September 29, 1948, increasing from $3.5 billion to $4 billion the limitation contained in paragraph (1) of the direction issued at the meeting on September 8, 1948, as amended by the action taken on September 27, 1948.

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 from September 8 to October 2, 1948, inclusive, were approved, ratified, and confirmed.

Before this meeting there were distributed to the members of the Federal Open Market Committee and its staff copies of a memorandum dated October 1, 1948, prepared by Messrs. Rouse, Riefler, and Thomas, pursuant to the understanding at the meeting on August 11, 1948, on the subject "Federal Reserve Policy with Respect to Treasury Bill Rates". The first and second sections of the memorandum discussed the practice with respect to the bill rate since the bill buying and repurchase agreement procedure was abandoned and the principles underlying this practice.

The third section of the memorandum contained a suggestion from Messrs. Riefler and Thomas that recent practices be modified so that the market would be encouraged to purchase more bills and the System's holdings would be reduced at each weekly refunding. To accomplish this purpose the memorandum proposed that the prices bid by the System on its exchange offerings be somewhat below (rates somewhat above) average bids by the market for new issues which would result in an increase in bill rates relative to certificate rates and that the margin between prevailing market rates for outstanding bills and the rates at which purchases or sales of such bills were made for System account be widened, which would encourage sellers to endeavor to find buyers in the market before selling to the System. The proposed change in procedure would be aimed at using the weekly bid for Treasury bills as a means of a more positive expression of System policy, i.e., if restraint were needed, the System's bids would be designed to reduce its exchanges which would absorb reserves, and if the Banks wanted their reserves restored they would sell securities to the Federal Reserve System. These securities would be purchased by the System at such rates as would be determined, but the necessity for banks to liquidate would be the means of making System policy currently effective.

Section four of the memorandum contained the comments of the Federal Reserve Bank of New York on the proposed change outlined above, to the effect that, while the reasons for the change had merit they could not be accepted without reservation as to the effectiveness of the proposed variation of practice which would be circumscribed, as outlined in the memorandum, by the policy of supporting the rates on certificates and long-term Treasury bonds and by the refunding requirements of the Treasury.

Mr. Thomas and Mr. Riefler amplified the views which they had expressed in the memorandum, and Mr. Sproul stated that, regardless of whether the proposed change was adopted, the rates at which the Federal Reserve Bank stood ready to buy and sell bills would be substantially the rates at which they would be purchased and sold in the market, that while by increasing the rate on bills it might be possible to refine somewhat further the effectiveness of the policy with respect to bills, much could not be accomplished in the way of a free market as long as the policy of supporting the one-year certificate rate was continued.

After a discussion of the possible effects of the change in bill practice proposed by Messrs. Thomas and Riefler, and how the change might be used to further System policy of putting further restraint on the market, Mr. Sproul stated that it appeared that the views expressed by Messrs. Thomas and Riefler and the New York Bank in the memorandum, and the views expressed during this meeting, were substantially in agreement that the System's weekly bids for Treasury bills should be designed to effect some redemption of System holdings of bills to absorb reserves and that the System's buying and selling rates on bills between weekly bid dates should be such as to impose a greater penalty on the seller. He felt that the New York Bank could experiment on that basis if it should be the decision of the committee that it should do so.

Reference was made to the fact that, at the discussion with the Secretary of the Treasury on August 9, it was understood that the bill rate would be allowed to rise to, perhaps, 1-1/8 per cent and short-term rates generally would be allowed to adjust themselves to the new 1-1/4 per cent certificate rate, and it was suggested that before the bill rate was allowed to go above 1-1/8 per cent the Treasury should be informed.

The foregoing discussion led to the conclusion that as long as the policy of rate support was continued the proposed change was not a very important one, but that there was room under existing policy to move the bill rate somewhat closer to the certificate rate, and that the New York Bank should move in that direction on an experimental basis.

It was suggested that, now that the Treasury September and October financing was completed, there was no continuing commitment on the part of the Federal Open Market Committee to maintain a 1-1/4 per cent rate on one-year Treasury certificates, and Mr. Sproul expressed the view that at the first opportunity there should be a further conference with the Secretary of the Treasury, at which time it should be stated that it was the view of the Federal Open Market Committee that steps should be taken shortly to increase the market rate on Treasury certificates so that when the December and January refunding was undertaken it could be carried out at the higher rate.

Mr. Eccles suggested that the important question for consideration at this time was the policy to be followed with respect to a further increase in the certificate rate. He felt that, while the present policy of supporting the long-term 2-1/2 per cent rate should be continued, there were also strong arguments for changing the policy which made it more difficult to defend a policy of supporting the short-term rate, and that he would like to take steps as promptly as possible to get away from the 1-1/4 per cent rate and let the rate go to a point where it would be self-supporting. That procedure, he said, would permit of a further increase in the discount rate.

Chairman McCabe suggested that the committee give consideration to the recommendations that it might make to the full Federal Open Market Committee and the discussion turned to a consideration of that matter.

At the conclusion of the discussion, Mr. Sproul suggested that the recommendation to the Federal Open Market Committee be substantially as follows:

1. That the bids for bills placed by the New York Bank each week be designed to bring about some redemption of the System bill holdings each week and that the bill rate be allowed to go as close to the certificate rate as possible without, at this stage, affecting the 1-1/4 per cent rate on one-year Treasury certificates.

2. That arrangements be made immediately for discussions with the Treasury of what the Federal Open Market Committee sees as the need and desirability for allowing the rate on one-year Treasury certificates to advance prior to the January refunding, that the Treasury be advised that the Committee proposes to take the initiative in the market to bring about an increase in the short-term rate rather than to wait for such a change to take place in connection with the January refunding, that it was hoped that there would be no objection on the part of the Treasury to that policy, that the extent of the increase could not be determined at this time and should not be limited to 1-3/8 per cent, and that the Committee had in mind as much as 1-1/2 per cent.

3. That rates on Treasury bills be moved up with the certificate rate, following substantially the same policy as is now being followed in relation to the 1-1/4 per cent rate, and that the rate on bills be kept just short of the current certificate rate.

The above proposal was approved unanimously as a recommendation to the full Committee, with the understanding that (1) the matter of an increase in the short-term rate should not be presented to the Treasury in such a manner that the Treasury would be expected to approve or disapprove, but rather that the Federal Open Market Committee proposed to take the action and the Treasury, if it desired could interpose no objection, in which event the Open Market Committee would have responsibility for the initiation of the increase, and (2) should the Treasury object it would be necessary to call another meeting of the full Committee to determine whether, in the light of the Treasury objection, the short-term rate should be increased.

Mr. Eccles expressed the view that, inasmuch as there were good reasons why the present policy with respect to support of the long-term 2-1/2 per cent rate should be continued, the System should see to it that it made full use of its other instruments of credit policy, including the discount rate, authority over member bank reserves, and changes in the short-term rate on Government securities, as a means of effectuating System policy. In that connection, he suggested that since it would not be practicable to increase the discount rate by less than 1/4 per cent at a time, the next increase should be to 1-3/4 per cent, and that it would not be necessary to wait until the one-year certificate rate had reached 1-3/8 or 1-1/2 per cent, but that the increase in the discount rate should be put into effect as soon as the market rate on certificates broke through the 1-1/4 per cent rate, which would be an indication that the System expected the certificate rate to go higher.

The members of the executive committee indicated agreement with Mr. Eccles' suggestion.

Thereupon, the meeting recessed to reconvene following the meeting of the Federal Open Market Committee.

Chester Morrill
Secretary.

Approved:

Thomas B. McCabe
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 Monday, October 4, 1948, at 3:40 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Szymczak
Mr. Williams

Mr. Morrill, Secretary
Mr. Carpenter, Assistant 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. Smith, 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

In response to an inquiry, Mr. Rouse stated that an authority to the Federal Reserve Bank of New York to increase or decrease the holdings in the System account by not more than $1 billion probably would be adequate pending another meeting of the executive committee.

Thereupon, upon motion duly made and seconded, the executive committee voted unanimously 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 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.

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.

There was a discussion of the date for the next meeting of the executive committee and it was agreed that no date should be set pending the outcome of discussions with the Treasury of the program approved at the meeting of the full Committee held earlier today.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

Thomas B. McCabe
Chairman.