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, March 8, 1951, at 2:30 p.m.

PRESENT: Mr. McCabe, Chairman
Mr. Sproul, Vice Chairman
Mr. Eccles
Mr. Evans
Mr. Gidney
Mr. Gilbert
Mr. Leedy
Mr. Norton
Mr. Powell
Mr. Szymczak
Mr. Vardaman
Mr. A. H. Williams

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Vest, General Counsel
Mr. Thomas, Economist
Messrs. Bopp, Irons, Tow, and J. H. Williams, Associate Economists
Mr. Thurston, Assistant to the Board of Governors
Mr. Riefler, Assistant to the Chairman, Board of Governors
Mr. R. A. Young, Director, Division of Research and Statistics, Board of Governors
Mr. Youngdahl, Chief, Government Finance Section, Division of Research and Statistics, Board of Governors

Messrs. C. S. Young, Leach, and Earhart, alternate members of the Federal Open Market Committee

Messrs. Erickson, Johns, and Peyton, Presidents of the Federal Reserve Banks of Boston, St. Louis, and Minneapolis, respectively

Mr. Clark, First Vice President, Federal Reserve Bank of Atlanta

Chairman McCabe reviewed briefly the developments since the last meeting of the Federal Open Market Committee, commenting particularly upon developments in the open market since the announcement on March 4, 1951 that the Federal Reserve and the Treasury had reached full accord with respect to debt-management and monetary policies to be pursued in furthering their common purpose to assure the successful financing of the Government's requirements and, at the same time, to minimize monetization of the public debt. In connection with his review, Chairman McCabe called upon Mr. Sproul who made a statement concerning developments in the market today, which was the first day in more than ten years on which the market for Government securities had been entirely without support from System open market operations. The Chairman also stated that the decision to allow the market to stand entirely on its own today was reached after a discussion with Messrs. Martin, Assistant Secretary of the Treasury, and Bartelt, Fiscal Assistant Secretary of the Treasury, yesterday, that he felt it was a very wise decision, and that he was hopeful that there had been established a new and better working relationship between the Treasury and the Federal Reserve as a result of the recent negotiations and joint announcement. He added that Messrs. Martin and Bartelt were coming over to see him at 3:30 this afternoon for further discussions concerning market developments.

Mr. Sproul then presented and commented upon a report prepared at the Federal Reserve Bank of New York of operations in the System open market account covering the period January 31, 1951 to March 1, 1951, inclusive, and on a supplementary report covering commitments executed from March 2 to March 7, 1951, inclusive. Copies of both reports have been placed in the files of the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account for the period January 31, 1951 to March 7, 1951, inclusive, were approved, ratified, and confirmed.

Reference was made 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 and 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. Mr. Sproul stated that accounts were now maintained with the Bank of Canada ($13,070), the Bank of England ($10,468), and the Bank of France ($42.79), that the latter was maintained for the purpose of keeping the account alive, that the others were used moderately, and that for reasons which he stated and which had been discussed at previous meetings, he would recommend that the authority contained within the terms of the 1936 resolution 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.

Mr. Gidney then referred 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. He stated that with the expanded loan activities of banks there may be greater need for this authority than in recent years and that he would recommend its continuance.

> 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 of November 30, 1937.

Mr. Sproul then referred to the authority granted to the Federal Reserve Banks by the Federal Open Market Committee on March 1, 1950, 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, stating that the authority had been used infrequently and within the spirit and letter of the Committee authorization, that it was useful as a supplementary market instrument, and that it might be of greater use in a period such as that immediately ahead.

In this connection, reference was made to the action of the Committee at the meeting on February 8, 1951 under which the Federal Reserve Bank of New York was authorized, notwithstanding the provision in (1)(a) of the authorization approved March 1, 1950, to enter into repurchase agreements at a differential of less than 1/8 per cent from the average issuing rate on United States Treasury bills, so that the agreements could be made at 1-1/2 per cent with a view to encouraging dealers to take positions in bills which they could resell readily in the present market and which it would not be necessary for the System account to purchase.

Mr. Thomas commented that the authority might be very useful in helping to develop a freer market, particularly if a situation developed where the money market was tight and dealers had to take in bills.

> Following a discussion, upon motion duly made and seconded, it was agreed unanimously that no change should be made in the authorization approved at the meeting on March 1, 1950, except that the Federal Reserve Bank of New York would continue to be authorized, until otherwise instructed by the Committee, to enter into repurchase agreements at a differential of less than 1/8 per cent in accordance with the authorization approved at the meeting of the Committee on February 8, 1951.

Mr. Sproul referred to the existing procedure for the allocation of securities in the System open market account approved at the meeting of the full Committee on December 9, 1947, and discussed further at the meeting of the executive committee on January 20, 1948, which was continued unchanged at the meeting on March 1, 1950. Mr. Sproul stated that the requirement in the second paragraph of the procedure authorized on December 9, 1947, that there be a periodic readjustment in the allocation of the System account in order to maintain a 35 per cent minimum reserve ratio at each Reserve Bank, was resulting in considerable bookkeeping because the ratios of several Reserve Banks were fluctuating around the 35 per cent figure, and he suggested that this figure be lowered to 30 per cent.

Following a discussion, upon motion duly made and seconded, and by unanimous vote, approval was given to a telegram to all Federal Reserve Banks in the following form:

At meeting of Federal Open Market Committee March 8, 1951, it was voted unanimously to continue the present method of allocating securities in the System Open Market Account except that the minimum reserve ratio to be maintained, as specified in paragraph two of the allocation procedure set forth on pages 15 and 16 of the minutes of the meeting of the Federal Open Market Committee held on December 9, 1947, and as amplified in the memorandum approved at the executive committee meeting of January 20, 1948, was reduced from 35 per cent to 30 per cent.

There was a discussion of the published terms on which the Federal Reserve Bank of New York transacts business with qualified dealers in United States Government securities for the System open market account. Mr. Sproul stated that from time to time non-qualified dealers had questioned the arrangement, that these questions arose only during periods when the System was actively supporting the market and was the principal purchaser of a particular issue or issues of securities, that this problem should tend to disappear with the freer market now anticipated, and that since the existing terms had worked well in the past he felt it would be desirable to continue them.

Chairman McCabe suggested the desirability of having a formal report submitted to the Federal Open Market Committee on this matter inasmuch as the most recent study submitted had been made in 1948, and Mr. Sproul responded that he felt it would be appropriate to ask the Federal Reserve Bank of New York to make such a report to the executive committee at an early meeting of that committee.

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 the understanding that the Federal Reserve Bank of New York would submit a report with respect to the arrangement for consideration at an early meeting of the executive committee.

Following a brief discussion, upon motion duly made and seconded, and by unanimous vote, the distribution of the weekly report of open market operations prepared by the Federal Reserve Bank of New York was approved as follows:

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 Vice President in charge, and 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.

In a discussion of the general direction to be issued to the executive committee, it was suggested that the authorization in the first paragraph be reduced from $3 billion to $2 billion.

Thereupon, upon motion duly made and seconded, the following direction to the executive committee was approved unanimously, with the understanding that the limitation 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 current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; 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.

At Chairman McCabe's request, the Secretary read a revised draft of the memorandum prepared by Mr. Martin, Assistant Secretary of the Treasury, containing revisions made by Mr. Riefler which had been concurred in by Mr. Martin, covering the staff discussions which had taken place during the period February 20-23, 1951. The memorandum is set out on pages 6-10 of the minutes of the meeting of the Federal Open Market Committee held on March 1-2, 1951. The Secretary, also at Chairman McCabe's request, read the statement of the principal points of the understanding with the Treasury, approved by the Committee on March 2, 1951, and set forth on pages 30-31 of the minutes of that meeting.

In connection with a discussion of market developments this week, Mr. Riefler read a draft of statement being released today by the Life Insurance Association of America and the American Life Convention, which had been read to him over the telephone earlier today by Mr. O'Leary, Director of Investment Research, Life Insurance Association of America. The statement read as follows:

"Last Monday a subcommittee of the Joint Committee on Inflation Control of the Life Insurance Association of America and the American Life Convention had the opportunity for a long talk with top officials of the Treasury and Federal

"Reserve System meeting jointly. This subcommittee consisted of Carrol M. Shanks, President, The Prudential Insurance Company of America, Newark, New Jersey; George L. Harrison, Chairman of the Board, New York Life Insurance Company; and Frazar B. Wilde, President, Connecticut General Life Insurance Company, Hartford.

"The Joint Committee believes that the recent accord reached by the Treasury and the Federal Reserve System is a most heartening and important development in the fight against inflation. The Treasury and Federal Reserve System deserve high commendation for the realistic step they have taken. The complete terms with respect to the exchange offering of 2-3/4 per cent Treasury bonds have now been announced by the Treasury.

"The Joint Committee strongly urges all life insurance companies to support the exchange offering to the maximum possible extent. The Joint Committee believes that the new Treasury program is a significant step in the right direction in the fight against inflation and thinks that it will prove but the first measure, growing out of the accord, in a continued vigorous program by Treasury and Federal Reserve authorities to prevent a further expansion of the money supply."

Chairman McCabe said that representatives of several life insurance companies met with him and Messrs. Martin and Bartelt on Monday of this week, that representatives of the investment bankers met with him yesterday, and that both groups indicated their views as to the terms that should apply on the Treasury note that would be available for exchange for the new 2-3/4 per cent nonmarketable bonds to be offered for conversion from the 1967-72 restricted Treasury bonds. He went on to say that some of the representatives felt that a 1-1/2 per cent 5-year note would be the most desirable offering, and that he felt that this would be the final decision of the Treasury.

Chairman McCabe then suggested that it be understood that, operating under the general direction issued earlier at this meeting, the executive committee continue to carry out the program agreed upon at the meeting of the Federal Open Market Committee on March 1-2, 1951.

This suggestion was approved unanimously.

The meeting then recessed and, following a meeting of the executive committee, reconvened at 3:35 p.m. with the same attendance as at the close of the earlier session except that Messrs. McCabe, Sproul, Vardaman, Thomas, and Riefler were not present.

Members of the staff of the Division of Research and Statistics of the Board of Governors then gave a visual presentation of recent economic developments. In this connection there were distributed a memorandum prepared in the Board's offices under date of March 6, 1951, on the Outlook for Treasury Cash Requirements, a memorandum on gross national product and income, dated March 7, 1951, and two memoranda prepared in the Board's offices under date of March 8, 1951, presenting information with respect to (1) action to check inflation and (2) the supply of funds available absorbing new money offerings of Government securities. Copies of these memoranda have been placed in the files of the Federal Open Market Committee.

The time for the next meeting of the Committee was set tentatively for the week beginning May 14, 1951.

Thereupon the meeting adjourned.

Secretary.