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 Friday, December 12, 1941, at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Fleming
Mr. Leach
Mr. Davis
Mr. Peyton

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors

Mr. Clayton, Assistant to Chairman Eccles

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 27, 1941, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee on September 27 and November 24, 1941, were approved, ratified, and confirmed.

Reference was made to the informal action of the members of the Federal Open Market Committee on December 8, 1941, following the outbreak of war with Japan, in increasing to $400,000,000 the limit on the authority granted to the executive committee to arrange for such transactions for the System account as in its judgment from time to time might be advisable in the light of existing conditions, and upon motion duly made and seconded, and by unanimous vote, this action on the part of the members of the Committee was approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from September 27 to December 11, 1941, both dates inclusive, as reported by Mr. Sproul at the meeting of the executive committee which immediately preceded this meeting, were approved, ratified, and confirmed.

Statements were then made by Messrs. Goldenweiser and Williams with respect to certain aspects of the business and monetary picture which they felt the Committee should have in mind and summaries of these statements have been placed in the files of the Federal Open Market Committee.

Following these statements, there was a discussion of the kinds, degrees, and causes of inflation; possible conditions following the war; and the kinds of controls that might be applied during and after the war period. Mr. Davis made a brief statement of his reasons for not feeling that there would be a general food shortage but that it might be necessary to apply controls to agricultural prices, and Chairman Eccles referred to some of the matters that had been discussed in conferences which he had attended with other Government officials in connection with the Government's tax program. There was general concurrence in the suggestion that, in order adequately to meet the problems that would arise during the war period, it was highly desirable that a general economic program be developed under which all elements of the situation could be integrated effectively.

At 12:50 p.m. the meeting recessed and reconvened at 2:20 p.m. with the same attendance as at the morning session except that Mr. Thurston, Special Assistant to Chairman Eccles, was in attendance.

Reference was made to the discussion had by members of the Board of Governors yesterday with Mr. Bell, Under Secretary of the Treasury, on the question which had been raised at the Treasury whether something should be done about issues of Government securities which were out of line in the market in relation to the two new issues which were being purchased by the System at par, and to the understanding had at that time that Mr. Bell might attend the meeting of the Federal Open Market Committee today for the purpose of expressing any views that he might wish the Committee to consider. Chairman Eccles talked to Mr. Bell on the telephone and the latter advised that several matters had come up which made it inadvisable for him to be away from his desk today.

In response to a request from Chairman Eccles that Mr. Sproul discuss what he felt should be the future open market policy of the

System in relation to Treasury financing, the latter stated that the Treasury and the System are in a better position now, from the standpoint of the rate structure and the national situation, to establish a pattern of rates which the Federal Reserve System would undertake to maintain within a range that would be fair to the Treasury as to the cost of funds and would provide a living return to banks and investment institutions. He pointed out that the attitude of the Open Market Committee had been that a 30-year bond at 2-1/2 per cent was perhaps a maturity which placed on the market the burden of taking risks which it should not be asked to take, and that the pattern of rates eventually adopted, while retaining the long-term 2-1/2 per cent rate, should have a shorter maturity, possibly 20-25 years. He felt that unless the market again moved upward substantially the System and the Treasury were in a position where such a pattern of rates could be established without serious dislocation in the market, that if such a pattern were established the new issue of 67-72s would sell above 98 which would not be serious from the standpoint of Treasury financing or the banks, and that, therefore, the present was an appropriate time for the Committee to go back to the Treasury with its suggestion relating to the establishment of a pattern of rates. With such a pattern, he said, the Committee could watch with equanimity the further decline in excess reserves, being prepared through open market operations or borrowing by member banks to maintain an easy position so that the banking system would be in a position at all times to take whatever Government securities might be necessary at a reasonable rate. He added that such a situation would be possible without the existing volume of excess reserves if it were clearly understood that the System intended to maintain an easy position and if the respectability of borrowing from the Reserve Banks were restored.

Mr. McKee raised the question whether, because of the psychological effect on the public, the Committee should permit quotations on Government securities to fall below par, and there ensued a discussion of whether the new 67-72s should be maintained at par, which would require that future long-term 2-1/2 per cent issues have a maturity of 20-25 years in order to give them the necessary premium in the market, or whether the pattern of rates should be based on a 15-20 year maturity which might result in the new 67-72s falling below par. In this connection it was agreed that if an adjustment downward were made in the rate it should be made very clear to the market that it was in the nature of a fundamental adjustment and one that would establish rates to be maintained during the war period.

Mr. Draper expressed the opinion that regardless of the technical necessities of the situation it would be a serious mistake for the country to begin its war financing program by allowing long-term Government bonds to sell at a discount and that, therefore, the 1967-72s should be supported at not less than par to the seller for as long a period of time as this policy would be effective.

Mr. Peyton inquired whether the Committee was satisfied that a pattern of rates could be determined upon at this time which could be maintained throughout the emergency and there was general agreement that, if the Committee and the Treasury could agree upon a program and that program were carried out, a pattern of rates could be decided upon and maintained and that the basic question was at what point the rates and maturities would be fixed.

The discussion indicated a difference of opinion on the part of the members of the Committee whether, if an adjustment in rate were made, it should be to a 2-1/2 per cent bond with a 20-25 year or a 15-20 year maturity. The suggestion was made that a downward adjustment might necessitate the retirement from the market of the new 67-72s and 51-55s and it was felt by some of the members present that this could be accomplished either by refunding the issue into another security or by the purchase of the issue by the Federal Reserve Banks and the Treasury.

In response to the question whether the Treasury would agree to a downward adjustment in rates, Chairman Eccles stated that if it should be decided to maintain the present rates the Committee should propose to the Treasury that in the future as few long-term issues as possible be put on the market, that short-term securities be designed for banks to the extent that it was necessary to depend on the banks to finance the Government's needs, and that other nonmarket issues be put out to tap savings funds.

Mr. Williams suggested that the problem should also be considered in the light of the effect of the pattern of rates on the excess reserve position and that the higher the level of rates the easier it would be to maintain a low level of excess reserves.

Mr. Sproul raised the question as to what would be best for the market and suggested that the market reaction would be better if the 67-72s were allowed to go below par and future new long-term issues carried a correspondingly shorter maturity.

At the conclusion of the discussion Chairman Eccles suggested that the Treasury be advised that it was felt by the Federal Open Market Committee that there were two alternatives that might be adopted, the first of which would contemplate that the 67-72s would be held at par which would make it necessary that future long-term issues have a maturity somewhere in the neighborhood of 20-25 years in order to provide the premium necessary to sell the securities in the market, in which case the Committee would feel that a program should be adopted which would permit of financing with more specialized issues such as short-term securities designed for banks and a tap issue designed to reach savings funds. Under the second alternative, Chairman Eccles said, the 67-72s would be allowed to go below par to a point, probably not less than 98, where future issues of 2-1/2 per cent bonds would carry a maturity of 15-20 years, the market would be depended on generally to take these issues, and less emphasis would be placed on the specialized issues suggested in the first alternative.

During the discussion of Chairman Eccles' suggestion there was unanimous agreement that, regardless of the basis finally adopted, before a pattern of rates could be agreed upon it would be necessary for the Treasury to decide upon a general program to be followed in connection with future Treasury financing.

> It was agreed unanimously that Chairman Eccles would advise Mr. Bell that the executive committee of the Federal Open Market Committee would like to have a meeting with him sometime next week for the purpose of discussing problems relating to Treasury financing and the Government securities market which were considered by the Federal Open Market Committee at its meeting today.

Mr. Sproul suggested that, in view of the continued uncertainty in the market and the possibility that the System might be called upon to buy further substantial amounts of Government securities, it would be desirable to increase to $500,000,000 the limit in the resolution of authority to the executive committee to direct the purchase or sale of securities in the System account, with the understanding that if it should appear that authority was needed beyond that amount another meeting of the Federal Open Market Committee would be called.

> Thereupon, upon motion duly made and seconded, and by unanimous vote, the following resolution was adopted:

> That the executive committee be directed until otherwise directed by the Federal Open Market Committee to arrange for such transactions for the System open market account (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement) as in its judgment from time to time may be advisable in the light of existing conditions; provided that the aggregate amount of securities held in the account at the close of this date shall not be increased or decreased by more than $500,000,000.
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> In connection with the adoption of the above resolution, Chairman Eccles stated that the Treasury had advised that it stood ready to resell the securities which had been purchased this week for its account whenever the market was ready to take them, and the action of the Committee in adopting the resolution was taken with the unanimous understanding that, when the market recovered and conditions justified, the System would participate equally with the Treasury in the resale of the bonds purchased during the current week and that the System's holdings of bills would also be disposed of.

Mr. McKee referred to the meeting of Treasury and Federal Reserve representatives which had been called by the Secretary of the Treasury in Chicago on Tuesday, December 16, 1941, for the purpose of considering methods that might be adopted to increase the sale of defense bonds and stated that arrangements were being made to have Mr. Bethea, the Board's liaison officer with the Treasury in connection with the defense bond campaign, attend that meeting. Mr. Sproul said that, as Chairman of the Defense Savings Bond Committee of the Presidents'

Conference, he had asked Mr. Young, President of the Federal Reserve Bank of Chicago, to attend the meeting as a representative of the Presidents' Conference and suggested that Mr. Peyton, because of the special experience which he had had with the campaign in his district, might also be present. Mr. Peyton said that he would be glad to attend.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.