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, March 2, 1942, at 10:10 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Alfred H. Williams
Mr. Gilbert
Mr. C. S. Young
Mr. Leedy

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Rouse, Manager of the System Open Market Account
Mr. Piser, Chief, Government Securities Section, Division of Research and Statistics of the Board of Governors
Mr. Clayton, Assistant to Chairman Eccles

Messrs. Paddock, McLarin, Davis, and Day, alternate members of the Federal Open Market Committee

Mr. Leach, President of the Federal Reserve Bank of Richmond, and Mr. Zurlinden, First Vice President of the Federal Reserve Bank of Cleveland

Mr. Sienkiewicz, Secretary of the Presidents' Conference

Mr. Morrill stated that advices of the election for the period of one year commencing March 1, 1942, of members and alternate members of the Federal Open Market Committee representing the Federal Reserve Banks had been received, that each newly elected member and alternate member had executed the required oath of office (with the exception of Mr. Fleming, who, because of illness, was not in attendance at this meeting but to whom the form of oath of office would be sent for execution), and that it was the opinion of the Committee's Counsel on the basis of the advices received that the following members and alternate members were legally qualified to serve:

Allan Sproul, President of the Federal Reserve Bank of New York, with W. W. Paddock, First Vice President (President elect) of the Federal Reserve Bank of Boston, as alternate member;

Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, with M. J. Fleming, President of the Federal Reserve Bank of Cleveland, as alternate member;

R. R. Gilbert, President of the Federal Reserve Bank of Dallas, with W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, as alternate member;

C. S. Young, President of the Federal Reserve Bank of Chicago, with Chester C. Davis, President of the Federal Reserve Bank of St. Louis, as alternate member; and

H. G. Leedy, President of the Federal Reserve Bank of Kansas City, with William A. Day, President of the Federal Reserve Bank of San Francisco, as alternate member.

Upon motion duly made and seconded, and by unanimous vote, the following officers of the Federal Open Market Committee were reelected to serve until the election of their successors at the first meeting of the Committee after March 1, 1943:

Marriner S. Eccles, Chairman
Allan Sproul, Vice Chairman
S. R. Carpenter, Assistant Secretary
E. A. Goldenweiser, Economist
John H. Williams, Associate Economist
Walter Wyatt, General Counsel
J. P. Dreibelbis, Assistant General Counsel

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after March 1, 1943.

Mr. Sproul stated that at the last meeting of the board of directors of the Federal Reserve Bank of New York Mr. Rouse was selected as manager of the System open market account, subject to the selection of the Federal Reserve Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System open market account and to his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as manager of the System open market account was approved.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairman of the Federal Open Market Committee (who, under the provisions of the bylaws, is also chairman of the executive committee) as members and alternate members of the executive committee until the selection of their successors at the first meeting of the Federal Open Market Committee after March 1, 1943:

Members	Alternate Members
M. S. Szymczak Ernest G. Draper Allan Sproul Alfred H. Williams	John K. McKee Ronald Ransom (To serve in the order named as alternates for Messrs. Eccles, Szymczak, and Draper)
	R. R. Gilbert C. S. Young (To serve in the order named as alternates for Messrs. Sproul and Williams)

At the suggestion of Messrs. Szymczak and McKee, Chairman Eccles reviewed briefly the suggested program of Treasury financing set forth in the memorandum which was sent to the Treasury on January 28, 1942. He also discussed the difficulties which it was felt were created by the failure of the Treasury to adopt a long-term program of financing, the discussions which members of the executive committee of the Federal Open Market Committee had had with representatives of the Treasury with respect to a financing program, and the attitude of members of the Treasury staff towards the problem. If substantially the present methods of financing were continued, he said, it would be necessary to create a large volume of excess reserves for the purpose of placing the banks under pressure to purchase Government securities. He stated that the program suggested in the memorandum sent to the Secretary of the Treasury on January 28, 1942, proposed special types of tap issues which were designed to attract as many non-bank funds as possible and to meet the requirements of different classes of investors which it was hoped would reduce the amount of open market financing and the amount of securities that would have to be purchased by banks to the lowest possible minimum. He made the further statement that it was felt that the members of the executive committee had done about all they could in the way of suggesting a desirable long-term program to the Treasury. He went on to say that the representatives of the Open Market Committee had indicated that, if the suggested program were carried out so as to reduce the amount of open market financing to a minimum, the Federal Reserve System would do everything within its power to insure the success of such financing. The Chairman added that it would be helpful if the Presidents' Conference could agree to a statement, which might be sent to the Treasury, expressing their agreement with the suggested program and their willingness to assume responsibility for the marketing of the special issues proposed in the program.

Reference was made to the status in Congress of the second War Powers Act which contains an amendment to section 14(b) of the Federal Reserve Act which would authorize the Federal Reserve Banks to purchase Government securities direct from the Treasury, and it was stated that present indications were that the bill would go to conference and that the amendment would be adopted in its original unrestricted form. In connection with a discussion of this amendment, Chairman Eccles suggested that the Presidents be furnished with copies of the memorandum prepared by Mr. Goldenweiser under the title ". . . But Only in the Open Market". A copy of the memorandum was handed to each of the Presidents during the course of the meeting.

Reference was made to the memorandum prepared by Mr. Piser under date of February 23, 1942, summarizing the discussions at the meeting with representatives of the Treasury on February 20, and to the statement attached thereto, which had been prepared at the Treasury, and which contained certain suggestions with respect to the open market financing program. There was a discussion of the likelihood of the Treasury taking the position at some time in the future that reserve requirements should be reduced and of what might be regarded as the minimum maturity of the long-term issues which it was expected would carry a rate of 2-1/2 per cent. Chairman Eccles reviewed the discussions at the Treasury on the latter point and stated that it had been agreed that, if a public statement were made with respect to the intention of the Treasury to undertake to finance the war at a rate not to exceed 2-1/2 per cent, the statement would be made by the Treasury, that in order to provide the necessary flexibility no reference would be made in that statement to the question of maturities, but that any securities with a maturity of 15 years or longer would be regarded as long-term issues which would carry the 2-1/2 per cent rate. It was also agreed, he said, that the point at which support would be given to the market by the System would be determined in discussions with the Treasury from time to time, that, if at any time the pressure on the long-term market were such that it became necessary for the System to purchase large amounts and financing could not be done on the basis upon which the market was being supported, the Treasury would want to consider the matter further, but that, if the market should decline to par on a 2-1/2 per cent 15-year issue, the market should be held at that point for the reason that any further decline would mean that the Treasury was paying more than 2-1/2 per cent on long-term securities.

Mr. Sproul pointed out that in speaking of a pattern of rates it had not been contemplated that rates would be fixed for the shorter-term securities, but that flexibility in those rates would be permitted to meet conditions, and that it was believed that this point in the suggested program was now understood by the Treasury. In this connection, Chairman Eccles said that it was made clear to the Treasury representatives that long-term securities might be anything from 15 to 25 years and that the rate on 90-day bills could be anywhere from 1/4 to 1/2 per cent.

The letter transmitting the memorandum of January 28, 1942, to the Secretary of the Treasury was then read, and Chairman Eccles called particular attention to the fact that the memorandum did not represent action by the executive committee of the Federal Open Market Committee or of the full Committee but was the unanimous view of the persons referred to in the letter as having participated in the preparation of the memorandum.

Mr. Leach stated that the short-term tap issue suggested in the memorandum of January 28 would provide for redemption after six months on 60 days' notice. He said that at a recent joint meeting in Baltimore of the directors of the Federal Reserve Bank of Richmond and its Baltimore Branch this point was discussed, without mentioning the program under consideration, and that it appeared that at the present time corporations and other large investors would be unwilling to commit many of their short-term funds unless provision were made for redemption in less than six months, and that, therefore, the short-term issue would be taken in much larger amounts if provision were made for redemption in four months or less even though no interest were allowed in the event of redemption within six months.

In a discussion of this point, during which Mr. Sproul stated that the Treasury might be willing to reduce the six months' period if the rate were reduced, Chairman Eccles stated that if corporations were not willing to commit their funds for six months they could invest in bills, the amount of which it was hoped would be increased for the purpose of giving the necessary flexibility to the short-term market.

In response to an inquiry from Mr. Draper, Chairman Eccles stated that the recent discussions at the Treasury had been with members of the Treasury staff and not with Secretary Morgenthau, and that it was not known what the attitude of the Secretary would be toward the program suggested in the memorandum of January 28.

In a discussion of what, if any, further action might be taken by representatives of the System with respect to the adoption of a long-term financing program, it appeared to be the consensus that the members of the executive committee of the Federal Open Market Committee should take advantage of every opportunity to follow the matter to a conclusion and that Under Secretary of the Treasury Bell should be advised that the members of the executive committee would be glad to have further discussions with members of the Treasury staff at any time.

Mr. Ransom stated that, if the Presidents adopted a statement in support of the program suggested in the memorandum of January 28, 1942, he would assume that if, in subsequent discussions with the Treasury, a modification of the program were decided upon the Presidents would have an opportunity to discuss the proposed changes.

Mr. Sproul said that it would be his understanding that, in the event such a statement were adopted by the Presidents, the members of the executive committee of the Federal Open Market Committee would be at liberty to continue discussions with the Treasury with respect to rates and other points of detail, but that if substantial changes were made the Presidents would be given an opportunity to consider the changes.

Chairman Eccles stated that before a decision could be reached on a program it would be necessary for members of the executive committee to meet with the Secretary of the Treasury, that he (Chairman Eccles) would like to feel that in such a meeting the members of the executive committee would be in a position to agree to as much of the suggested program as they could get the Secretary of the Treasury to accept and that, if the Treasury would not accept the entire program, the members of the Federal Open Market Committee should be in a position to commit the System to the extent that a program could be agreed upon without being under the necessity of referring the matter back to the other Federal Reserve Bank Presidents.

Mr. Davis expressed the opinion that it was desirable that a decision be reached on the question of a long-term program before the Treasury was again faced with the necessity of going into the market for additional funds, and he suggested that the submission of any statement adopted by the Presidents be used as an occasion for a further discussion with the Treasury.

Chairman Eccles then called upon the Presidents for an expression of their views with respect to the program suggested in the memorandum of January 28. All of the Presidents and First Vice Presidents in attendance at the meeting, with the exception of Messrs. Sproul, Leach, and Williams who had participated in the discussions at the Treasury and whose views were known, expressed themselves as being in agreement with the proposed program and indicated that they would be agreeable to the adoption by the Presidents' Conference of a statement in support of the program.

Mr. Leach renewed his suggestion that the initial redemption period on the short-term issue referred to in the memorandum be reduced to two or four months with provision for no interest in the event of redemption before six months from date of issue. Several of the Presidents concurred in this suggestion.

Chairman Eccles stated that, if it were felt that Mr. Leach's suggestion was an important one, it could be proposed as a matter of detail at the proper time without making it an issue in the discussions with the Treasury with respect to the adoption of the general program. Mr. Zurlinden said that, if the Treasury were unwilling to adopt the suggestion, the program could be put into effect without it and it could be determined on the basis of experience whether the change should be made.

Mr. Gilbert stated that it would be desirable if the present rate on Treasury bills were increased somewhat for the reason that a higher rate would broaden the distribution of bills and effect a better distribution of bank reserves.

During the Presidents' statements, reference was made to the suggestion that the Federal Reserve Banks offer to handle the sale of the special issues proposed in the memorandum of January 28, 1942, and Chairman Eccles stated that he felt that such an offer would be acceptable to the Treasury and would facilitate the adoption of a program.

Chairman Eccles then inquired whether the Presidents felt that there was any other form of open market security that could be offered by the Treasury that would meet the needs of investors as well as a long-term tap issue which, in effect, would be an extension of the Series G issue on somewhat less favorable terms and would enable investors to avoid the speculative element of market issues, the padding of subscriptions to get a desired amount, or the payment of premiums in the open market. Mr. Davis stated, and other Presidents indicated agreement, that the position was implicit in the program that had been offered to the Treasury that market issues could not meet the needs of certain investors as well as the suggested special issues.

Chairman Eccles stated that it would be of considerable assistance to the members of the executive committee in their further discussions with the Treasury if the Presidents' Conference would adopt a statement along the lines that had been proposed, and that the statement might well include the Presidents' reasons for supporting the program and a statement of the willingness of the Federal Reserve Banks to undertake the distribution of the special issues contemplated in the program.

Mr. Day, as Chairman of the Presidents' Conference, stated that the Presidents would meet in a separate session to consider the matter.

Reference was then made to the open market policy that should be followed pending another meeting of the Federal Open Market Committee, and Mr. Sproul stated that this question was so closely related to the financing policies adopted by the Treasury that, until a decision was reached by the Treasury on what its future financing program would be, the Federal Open Market Committee had little choice other than to continue the open market policy now in effect, and that, therefore, he would suggest the renewal of the resolution adopted at the last meeting of the Committee.

Mr. Ransom inquired of Mr. Wyatt whether the limitation of 5 billion dollars, which had been approved by the House of Representatives, on the proposed authority of the Federal Reserve Banks to purchase securities directly from the Treasury, should be taken into consideration by the Federal Open Market Committee in connection with the renewal of the authority granted to the executive committee to effect transactions in the System account. Mr. Wyatt replied that, since the War Powers Bill which contained the amendment had not yet been passed by Congress and it was expected that the limitation would not be in the amendment in its final form, the limitation would have no effect on the authority of the Federal Open Market Committee to take the suggested action.

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

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.

The resolution adopted by the Federal Advisory Council at its last meeting, in which it was suggested that consideration be given to the desirability of an increase in the amount of weekly Treasury bill offering, was then read. Mr. Morrill stated that copies of this resolution and of a second resolution adopted by the Federal Advisory Council, in which the position was taken that reserve requirements of member banks should be kept as stable as possible, had been sent by the Board of Governors to the Treasury for its confidential information.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.