

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, January 25, 1943, at 10:15 a. m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. John H. Williams, Associate Economist
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open
Market Account
Mr. Clayton, Assistant to the Chairman
of the Board of Governors
Mr. Thurston, Special Assistant to the
Chairman of the Board of Governors
Mr. Piser, Chief, Government Securities
Section, Division of Research and
Statistics of the Board of Governors
Mr. Berntson, Clerk in the Office of the
Secretary of the Board of Governors

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

Messrs. Leach and Peyton, Presidents of the
Federal Reserve Banks of Richmond and
Minneapolis, respectively

Mr. Sienkiewicz, Secretary of the Presidents'
Conference

1/25/43

-2-

Mr. Edmiston, Assistant Vice President of the
Federal Reserve Bank of St. Louis

Upon motion duly made and seconded, and
by unanimous vote, the minutes of the meeting
of the Federal Open Market Committee held on
December 14, 1942, were approved.

Upon motion duly made and seconded, and
by unanimous vote, the actions of the execu-
tive committee of the Federal Open Market
Committee as set forth in the minutes of the
meeting of the executive committee held on
December 14, 1942, were approved, ratified,
and confirmed.

Mr. Rouse read a report prepared at the Federal Reserve Bank
of New York of open market operations conducted during the period
from December 14, 1942, to January 20, 1943, inclusive. He also made
a supplemental report covering the transactions conducted for the
System open market account during the period from January 20 to 23,
1943, inclusive. Copies of Mr. Rouse's 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 during the period from Decem-
ber 14, 1942, to January 23, 1943, inclusive,
were approved, ratified, and confirmed.

Under date of December 22, 1942, the Board's examiner in
charge submitted to Mr. Morrill, as Secretary of the Federal Open Mar-
ket Committee, a copy of a report of examination of the System account
made as of the close of business on October 3, 1942, by the Board's
examiners as part of the regular examination of the Federal Reserve
Bank of New York, and copies of this report were sent to the members

1/25/43

-3-

of the Federal Open Market Committee on December 29, 1942. The report contained no criticisms or recommendations.

Upon motion duly made and seconded, and by unanimous vote, the report was received and ordered filed.

Chairman Eccles stated that the Washington members of the Federal Open Market Committee would like to suggest that the representative members of the Committee bring the economists from their respective Banks to future meetings of the Committee, and that an arrangement be adopted under which one or two of the economists would discuss business and credit conditions at each of these meetings. It was felt, he said, that such a procedure would bring further aid to the Committee in its work, and would stimulate the interest of the economists and of the economic and research staffs of the Federal Reserve Banks. It would be understood also, Chairman Eccles said, that a President who was not a member of the Committee would be at liberty to have the economist from his Bank accompany him to the meetings which he might attend whenever he believed it to be desirable and when the hotel and transportation situation made it appropriate. All of the Presidents indicated agreement that such a procedure would be a desirable one.

Upon motion duly made and seconded, and by unanimous vote, approval was given to the suggestion that the representative members of the Committee arrange to have the economists from their respective Banks attend future meetings of the Committee and that the other Presidents be invited to bring the economists from their Banks to the Committee meetings which they might attend.

1/25/43

-4-

The Chairman then said that in order to facilitate the consideration at this meeting of Treasury financing and open market policies two memoranda had been prepared, one entitled "Treasury Financing and Open Market Policies" by the Board's staff under date of January 22, 1943, and one by Mr. Sproul under date of December 10, 1942, on the subject "Credit Policy and Treasury Financing". The Chairman said that Mr. Sproul's memorandum was briefly discussed at the last meeting of the Committee and following that meeting copies had been sent to the Presidents of the Federal Reserve Banks who were not members of the Committee. Copies of the memorandum prepared by the Board's staff had been sent to all of the Presidents of the Federal Reserve Banks a few days prior to the present meeting. The two memoranda were read (all but the last section of the memorandum prepared by Mr. Sproul) and there was a general discussion of the several questions raised by the memoranda.

Chairman Eccles stated that, while the December financing campaign had been a success when judged on the basis of the total amount of securities sold, there were many things that would have to be done in future campaigns to improve the procedure, particularly for the purpose of reducing the proportion of new securities sold to banks. He felt that a continuation of the present volume of bank subscriptions would indicate a failure of the Victory Fund Committees to achieve their primary purpose of selling securities to nonbank investors, and that the assumption that it would be necessary to sell as much as

1/25/43

-5-

\$30,000,000,000 of securities to the banks in the current year should be abandoned. He added that every effort should be made to bring about the adoption by the Government of an adequate program of taxation and compulsory saving.

The meeting recessed and reconvened at 2:10 p.m. with the same attendance as at the close of the morning session except that Messrs. McKee and Dreibelbis were delayed, and Mr. Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors, was in attendance.

Chairman Eccles reviewed some of the suggestions that were being considered by the Government with respect to a "pay-as-you-go" income tax plan, a withholding tax, and other fiscal policies, and there was a discussion of Treasury financing and open market policies in the light of a probable budget deficit in excess of \$60,000,000,000. There was a unanimous feeling that, although it very likely would not be possible to hold the amount of bank purchases of Government securities to the minimum indicated by the chart attached to the memorandum prepared by the staff of the Board of Governors and previously referred to at this meeting, everything possible should be done to achieve that objective.

During this discussion, Messrs. McKee and Dreibelbis rejoined the meeting.

Reference was made to suggestions previously offered that Treasury bills be sold at a fixed rate of discount up to \$100,000 to

1/25/43

-6-

any one purchaser or that the Federal Reserve Banks purchase bills directly from the Treasury for resale at a fixed discount rate, and to the further suggestions that the Treasury adopt a policy of offering its bills at the fixed rate of $3/8$ per cent, or that the offerings be at a fixed rate up to a stated amount to any one purchaser and on a bid basis for the balance.

The additional suggestion was offered by Mr. McKee that the weekly issues of bills be allotted to the Federal Reserve districts on the basis of excess reserves held by the member banks in the respective districts with a view to larger sales of bills to banks having excess reserves.

In an informal poll of the Presidents as to their attitude toward the purchase of bills by the Federal Reserve Banks directly from the Treasury for resale, a majority of the Presidents were of the opinion that this should not be resorted to at this time but that other suggestions designed to obtain a wider distribution of bills should be adopted. In a further discussion there appeared to be general agreement that at least for the time being, and in view of the established method of issuing bills and the possible attitude of the Treasury on the matter, the best procedure would be for the Treasury to accept all bids for bills at a $3/8$ per cent rate up to \$100,000 to any one purchaser with the balance being sold on a competitive bid basis.

Turning to the question of the problem before the Federal

1/25/43

-7-

Open Market Committee of maintaining an agreed pattern of rates on Government securities and supplying reserve funds to the market for the purpose of financing the war, Chairman Eccles felt that a strong case could and should be made to the Treasury for the separation of drives for nonbank funds from offerings to banks, for the reason that during the nonbank campaigns the Committee would be faced only with the problem of maintaining the pattern of rates, that securities could be offered to the banks between drives in relatively small amounts which could be handled with smaller excess reserves than were believed to be necessary in the past, and that greater emphasis could be placed on the sale of securities to nonbank purchasers. There should be a determination also, he said, as to how funds are to be put into the market so as to avoid the condition that existed during the December financing when, in order to maintain a certain volume of reserves in the market, as well as to maintain the pattern of rates, the System was forced to buy an undesirable proportion of bonds selling at substantial premiums. It was his opinion that, since we know we shall have to provide a certain amount of reserve funds during this period of heavy war financing, provision should be made for direct purchases from the Treasury to the extent believed to be necessary of portions of the weekly offerings of bills, which, through the redemption of maturing bills held by the public in the amount of the System's purchases, would put the desired funds directly into the market.

1/25/43

-8-

Mr. Sproul stated that in his opinion, and because he believed nothing should be done which might create public concern about the credit of the Government, direct purchases of this kind should not be resorted to for the purpose of supplying reserve funds until necessity forced such action, which is not the case at present. He said that a further effort should be made to convince the Treasury and banks that, when the latter hold substantial amounts of Treasury bills that can be immediately realized upon, the amount of excess reserves is no longer of primary importance. He did not believe, therefore, that the Open Market Committee should undertake to determine beforehand the amount of excess reserves needed in connection with financing operations and to supply them in this way. If a particular financing job appears to require that additional funds be supplied to tone up the market, a better way to accomplish the purpose would be to allow Treasury balances to run down before a financing operation and to meet the Treasury's temporary cash requirements during that period through the purchase by the Federal Reserve Banks of special one-day certificates of indebtedness. This practice, he said, has the virtue of flexibility, of the automatic extinction of the credit created as the Treasury's balances are replenished by the sale of securities, and of public acceptance through previous experience with it. He added that to embark on a program of direct buying of Treasury bills from the Treasury would unnecessarily involve the System in a question of public policy which he felt should not be raised at this time.

1/25/43

-9-

During a discussion of the opinions expressed by Messrs. Eccles and Sproul, the former stated that another aspect of the problem was whether the System should continue to replace in the market maturing bills and certificates held in the System account or whether arrangements should be made with the Treasury for the direct replacement of these maturities which would be in increasing amounts in the future. It was agreed that this point should be considered when the meeting reconvened tomorrow.

Thereupon the meeting recessed to reconvene at 9:30 o'clock tomorrow morning.

Chester Morrie
Secretary.

Approved:

W. H. Eccles
Chairman.

The meeting 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, January 26, 1943, at 9:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Alfred H. Williams
Mr. Gilbert
Mr. Young

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. John H. Williams, Associate Economist
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open Market Account
Mr. Clayton, Assistant to the Chairman of the Board of Governors
Mr. Piser, Chief, Government Securities Section, Division of Research and Statistics of the Board of Governors
Mr. Berntson, Clerk in the Office of the Secretary of the Board of Governors

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

Mr. Leach, President of the Federal Reserve Bank of Richmond

Mr. Sienkiewicz, Secretary of the Presidents' Conference

Chairman Eccles stated that, in view of the increased amount of maturing bills and certificates which it was expected would be held in the System account in the future, he would like to see the Committee

1/26/43

-2-

reach an understanding pursuant to which, under the authority given to the executive committee by the Federal Open Market Committee, the executive committee would arrange with the Treasury for the direct replacement, in full, of such maturities as well as of other maturing issues on which the right of exchange might not be extended to all other purchasers. His reason for this position was that such a procedure would eliminate the necessity of the System competing for replacement securities in the market (on which it would be necessary to pay the dealers' commissions) as well as the disturbance to the market that might result from such purchases which would be in addition to System purchases of some \$3,000,000,000 to \$9,000,000,000 during the current year for the purpose of supplying the market with needed funds. He stated that in the current offering of certificates of indebtedness bank subscriptions in excess of \$100,000 are to be allotted on the basis of only about 14 per cent of the amount subscribed. He added that, in all the circumstances, it would be his suggestion that in future offerings dealers should not be given full allotment but should be given an allotment on the same basis as banks accepting demand deposits.

Mr. Sproul said that the latter suggestion does not involve merely the question of denying full allotment to a few dealers in Government securities but the broader question of how far underground you wish to drive the practice of heavy subscriptions to issues of Government securities on which it appears a quick profit will be realizable. Consideration must also be given, he said, to the treatment to be accorded to brokerage houses, corporations, and individuals who purchase to resell and who, in

1/26/43

-3-

many cases, are not now policed strictly as are the so-called Government security dealers with respect to the amount of their subscriptions.

With respect to the replacement of maturing securities in the System account, in cases where no exchange offering is made by the Treasury, Mr. Sproul suggested that the System should not seek a change in the Treasury's offering circulars so as to make possible full replacement by the System under all circumstances. Having regard for his own bias against any extension of direct dealings with the Treasury, he said he thought the better procedure would be to let the market take the securities it wanted and, if necessary, to replace System maturities with other securities the market wishes to sell. In the case of the current offering of certificates, he said that the small allotment percentage to Federal Reserve Banks and other banks accepting demand deposits was an indication that the market does not need the funds which would be supplied by full replacement of the System's holdings of the maturing certificates, and that to the extent additional funds are needed Treasury bills are being sold to the Reserve Banks.

During the discussion of the opinions expressed by Messrs. Eccles and Sproul, Messrs. McKee, Peyton, and Leedy, and Mr. Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors, joined the meeting.

Reference was made in the discussion to the function that Government security dealers should be expected to perform in the present war financing situation, and Mr. McKee suggested that a study be made, in cooperation with the dealers, of the functions they should perform and

1/26/43

-4-

how their operations should be fitted into the financing program. It was his thought in making this suggestion that such a committee might be able to work out a program for the dealers during the war period that would facilitate the Treasury's financing and the operations of the Federal Open Market Committee.

Mr. Rouse stated that he met with representatives of the dealers on Friday of each week for the purpose of discussing all phases of the market situation and how the dealers could be most helpful, and that the dealers were trying to cooperate with the Treasury and the Federal Reserve System.

Mr. Williams moved that a committee be appointed by Chairman Eccles to make a study of the significant aspects of the relationship of the Government security dealers to the Government security market, it being understood (1) that the committee would be a small one and would complete its study promptly, if possible by the next meeting of the Federal Open Market Committee, and (2) that the committee would determine to what extent representatives of the dealers should be consulted.

Mr. Williams' motion was put by the chair and carried unanimously.

In a further discussion of the method by which maturing securities in the System account should be replaced, reference was made again to the question whether the System should arrange with the Treasury for full allotment of new securities when no exchange offering is made. Mr. Sproul said he did not favor full replacement in the manner suggested for the reasons which he had previously stated.

Inquiry was made as to the purpose of the amendment authorizing direct purchases from the Treasury, and Chairman Eccles stated that in

1/26/43

-5-

testifying on the bill he had not stated that the authority would be used only for the purpose of purchasing special short-term certificates of indebtedness from the Treasury but rather that it would not be used as a means of financing Treasury requirements. He distinguished between direct purchases for the purpose of supplying funds to the market and for the purpose of replacing maturing securities. In the discussion of this point, reference was made to the opinions submitted by the Committee's Counsel last year that, to the extent that allotments of new securities were permitted to be paid for by the delivery of maturing securities, the transaction would, in fact, be an exchange and should not be charged to the System's authority to purchase direct from the Treasury.

At the conclusion of the discussion, during which it was evident that there was a division of opinion as to the course to be followed, Chairman Eccles stated that under the directions issued to the executive committee it had authority to arrange with the Treasury for direct replacement of maturing securities and that he had referred to the matter at this time in order to ascertain whether any change should be made in the executive committee's authority.

Mr. Morrill stated that Mr. Black, Governor of the Farm Credit Administration, recently suggested to Mr. Evans that it would be desirable if the 3/8 per cent posted rate on Treasury bills were extended to cover Federal intermediate credit bank debentures for the reason that in the present circumstances the debentures were somewhat handicapped in the market by the preference for bills.

1/26/43

-6-

In this connection, Mr. Leedy stated that complaint had been made in his district because the preferential rate of 1/2 per cent established by the Federal Reserve Banks on advances to member banks on short-term Government securities was not extended to advances secured by Federal intermediate credit bank debentures, the statement being made that this was the first time any distinction had been made on the basis of rate.

It was pointed out that the 3/8 rate on Treasury bills and the preferential rate on advances to member banks were established as aids to the war financing program and that therefore there was no reason for applying these privileges to Federal intermediate credit bank debentures.

There was unanimous agreement that no change should be made in the direction issued to the Federal Reserve Banks at the meeting of the Federal Open Market Committee on September 28, 1942, to purchase all bills offered at the posted rate of 3/8 per cent.

All of the members of the Committee were in agreement that the renewal of the authority granted to the executive committee at the last meeting of the Federal Open Market Committee would be ample to meet the situation pending the next meeting of the Committee.

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, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities,

1/26/43

-7-

and letting maturities run off without replacement), as may be necessary in the practical administration of the account, or for the purpose of maintaining about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; 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 and Treasury bills purchased pursuant to the direction of the Federal Open Market Committee issued under date of September 28, 1942) shall not be increased or decreased by more than \$1,000,000,000.

That the executive committee be 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 amount of such certificates held in the account at any one time shall not exceed \$1,000,000,000.

Mr. McKee suggested that it be understood that under the authority granted to the executive committee it would undertake to arrange with the Treasury for an amendment to the terms under which the various issues of Government securities are offered so as to permit full allotment to the System of securities issued to refund all maturing direct obligations, to the extent that replacement of such maturing securities held in the System account appeared to the executive committee to be desirable.

Upon motion duly made and seconded,
this suggestion was adopted, Messrs.
Sproul and Williams voting "no".

The statement was made that the terms of the present representative members of the Federal Open Market Committee would expire on February 28, 1943. It was indicated that a meeting of the Presidents' Conference probably would not be held at that time and therefore some of

1/26/43


-8-

the Presidents who were now members of the Committee would not be in Washington unless their presence was deemed necessary.

It was agreed that, inasmuch as the last day of February would fall on Sunday, the next meeting of the Committee should be held on Monday, March 1, and that the Secretary should obtain from the members whose terms would expire at that time advice of their approval of the transactions up to that date, which should be reported at the meeting.

Chairman Eccles stated that the special committee of the American Bankers Association on Treasury financing was anxious to meet with him, Mr. Bell, and some of the Chairmen of the Victory Fund Committees, that the committee had discussed the matter with Mr. Bell, and that it was suggested that the group arrange to meet with the committee sometime next week. It was understood that Messrs. Eccles, Sproul, Williams, and Young would attend the meeting.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.