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 Tuesday, March 2, 1943, at 10:10 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Evans
Mr. Paddock
Mr. Fleming
Mr. McLarin
Mr. Peyton (alternate for Mr. Day)

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. Thomas, Assistant Director of the Division of Research and Statistics 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. Leach and Young, alternate members of the Federal Open Market Committee

Messrs. Alfred H. Williams, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Philadelphia, Kansas City, and Dallas, respectively

Messrs. Bryan and Clerk, First Vice Presidents of the Federal Reserve Banks of Atlanta and San Francisco, respectively

Messrs. Sienkiewicz, MacKenzie, and Upgren, Vice Presidents of the Federal Reserve

Banks of Philadelphia, Cleveland, and Minneapolis, respectively

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

Mr. Rice, Manager of the Research and Statistical Department at the Federal Reserve Bank of Dallas

Mr. Morrill stated that advices of the election for the period of one year commencing March 1, 1943, 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. Day, who, because of illness, was not in attendance at this meeting but to whom the oath of office had been 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:

W. W. Paddock, President of the Federal Reserve Bank of Boston, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

Allan Sproul, President of the Federal Reserve Bank of New York, with L. R. Rounds, First Vice President of the Federal Reserve Bank of New York, as alternate member;

M. J. Fleming, President of the Federal Reserve Bank of Cleveland, with C. S. Young, President of the Federal Reserve Bank of Chicago, as alternate member;

W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, with Chester C. Davis, President of the Federal Reserve Bank of St. Louis, as alternate member; and

William A. Day, President of the Federal Reserve Bank of San Francisco, with J. N. Peyton, President of the Federal Reserve Bank of Minneapolis, as alternate member.

Upon motions 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, 1944:

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

Chairman Eccles referred to the approval given at the last meeting of the Federal Open Market Committee to the suggestion that the Reserve Bank members of the Committee arrange to have the economists from their respective Banks attend future meetings of the Committee with the understanding that they would be called upon from time to time at the meetings to discuss business and credit conditions. He said that the further suggestion had been made that all of these economists be elected as Associate Economists of the Committee.

This suggestion was agreed to and, upon motion duly made and seconded, it was voted unanimously to elect as Associate Economists of the Federal Open Market Committee to serve until the first meeting of the Committee after March 1, 1944, the five economists from the Federal Reserve Banks of Boston, New York, Cleveland, Atlanta, and San Francisco who would be designated by the respective Reserve Bank members of the Committee for that purpose.

In accordance with this action, the following designations were made:

John H. Williams, by Mr. Sproul
K. H. MacKenzie, by Mr. Fleming
Malcolm H. Bryan, by Mr. McLarin

Mr. Paddock stated that at a later date he would designate an economist from the Federal Reserve Bank of Boston, and it was understood that Mr. Clerk would advise Mr. Day of the Committee's action so that a designation could be made by him of an economist from the Federal Reserve Bank of San Francisco.

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, 1944.

Mr. Sproul stated that the board of directors of the Federal Reserve Bank of New York had selected Mr. Rouse 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, 1944:

Members	Alternate Members
Ronald Ransom	John K. McKee
R. M. Evans	M. S. Szymczak
Allan Sproul	Ernest G. Draper
W. W. Paddock	(To serve in the order named as alternates for Messrs. Eccles, Ransom, and Evans)

Members (Cont'd) Alternate Members

M. J. Fleming
W. S. McLarin, Jr.
(To serve in the order named as alternates for Messrs. Sproul and Paddock)

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on January 25-26, 1943, 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 meeting of the executive committee held on January 25-26, 1943, were approved, ratified, and confirmed.

At this point, Mr. Davis, an alternate member of the Committee, joined the meeting.

Mr. Rouse submitted a report prepared at the Federal Reserve Bank of New York of open market operations conducted for the System account during the period from January 26 to February 24, 1943, both inclusive, and supplemental reports covering transactions during the period from February 25 to March 1, 1943, both inclusive. He reviewed the important parts of the principal report, and referred particularly to the changes that had taken place in the account during the period from January 24 to and including March 1, 1943. Copies of Mr. Rouse's reports have been placed in the files of the Federal Open Market Committee.

In connection with the table on page 6 of the principal report showing the distribution of accepted tenders on Treasury bill offerings, Mr. McKee suggested that consideration might be given to the desirability of selling bills from the System portfolio to meet tax situations such as occur in the Chicago and Minneapolis Districts, rather than to permit buyers in the affected areas to bid in the market and disturb the normal distribution of bills. Following a discussion of this suggestion, Mr. McKee expressed the opinion again that the option on the part of the seller to repurchase Treasury bills sold to the Federal Reserve Banks should be limited to 15 days, which would avoid immobilizing the bills in the hands of the Federal Reserve Banks in recognition of the option running for the life of the bills. There was a discussion of reasons why a 15-day option might not be effective in accomplishing this result.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from January 25 to March 1, 1943, inclusive, were approved, ratified, and confirmed.

Mr. Goldenweiser, as chairman of the committee appointed in accordance with the action taken at the meeting of the Federal Open Market Committee on January 26, 1943, to make a study of the significant aspects of the relationship of the Government security dealers to the Government security market, distributed copies of the preliminary report of the committee and stated that because of the time limitation the report was hastily prepared and that, while it made certain recommendations, none of them involved radical changes in the present procedure.

> It was understood that the report would be placed on the agenda for discussion at the next meeting of the Federal Open Market Committee, that the members of the Committee

would study it in the meantime, and that the special committee might continue its studies and, if found desirable, submit a revised report.

Reference was made to the direction issued by the Federal Open Market Committee on September 28, 1942, with respect to the purchase of Treasury bills by the Federal Reserve Banks, and Mr. McKee suggested that the new Open Market Committee renew the direction.

Thereupon, upon motion duly made and seconded, the following direction was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the option holder:

Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of 3/8 per cent per annum, any such purchases, if desired by the seller, to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased outright are to be purchased for the System open market account. All bills purchased under option to repurchase are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all such purchases are to be made to the manager of the System open market account.

In accordance with the suggestion previously made by Mr. McKee, it was again understood that the executive committee 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 maturing direct obligations, to the extent that replacement of such securities held in the System account appeared to the executive committee to be desirable.

On this action, Mr. Sproul voted "no" for the reasons stated by him at the meeting of the Committee on January 26, 1943.

The question of the limitations to be placed on the authority of the executive committee to execute transactions in the System open market account was considered in the light of discussions at an informal meeting yesterday of the Presidents of the Federal Reserve Banks and the Board of Governors with respect to the organization to be set up to handle the forthcoming April financing drive and the program for, and the types of securities to be offered during, the drive. It was suggested that the bill now pending before Congress, which would remove the requirement that reserves be maintained against war loan deposits and reduce required reserves by a substantial amount, might not be approved before the April drive, and that in that event the System might be called upon to purchase very substantial amounts of securities before and during the drive for the purpose of supplying reserves. There was agreement that, in view of the unprecedented size of the April financing and the decline in member bank reserves, the limitation on the authority of the executive committee (1) to increase or decrease the amount of securities in the System account, and (2) to purchase short-term certificates for the temporary accommodation of the Treasury, should be increased from $1,000,000,000 to $1,500,000,000.

Thereupon, upon motion duly made and seconded, the following direction was approved 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, 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 directions of the Federal Open Market Committee issued under dates of September 28, 1942, and March 2, 1943) shall not be increased or decreased by more than $1,500,000,000.

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 $1,500,000,000.

Chairman Eccles stated that the members of the executive committee of the Federal Open Market Committee were to meet with the Secretary of the Treasury this afternoon to discuss the issues to be offered in the April financing and that, in view of the announcement by the Treasury that the minimum goal of the April drive would be $13,000,000,000, he (Chairman Eccles) would like to suggest to the Treasury that the 7/8 per cent certificate be eliminated from the list of securities offered during the drive, with the understanding (1) that a 2 per cent bond would be offered to banks at the beginning of the drive, (2) that at the end of the drive a certificate would be offered to refund the issue of certificates maturing on May 1 and to raise whatever additional funds might be desired as a part of the April drive, and (3) that the subscriptions for the certificates be allotted in full up to $100,000 and the balance on a percentage basis regardless of the source of the subscription. The reason for this suggestion, Chairman Eccles said, was that, as long as the present policy of maintaining a pattern of rates was continued, holders of certificates could realize a profit by selling the shorter-term certificates and purchasing new issues as they were offered, and in his opinion there was no justification in these circumstances for offering certificates to the public in unlimited quantities. In this connection, he referred to the successful experience in Canada of selling bonds to the public rather than short-term securities, and he felt that the same policy should be adopted in the United States and that, if the April drive included a 2-1/2 and a 2 per cent bond, the Series E, F, and G war savings bonds, and the tax note, the investment needs of the public could be adequately met without offering during the drive a certificate which would mature within a year and which would add to the refunding problems of the Treasury in a period when the total offerings of securities were being substantially increased.

During Chairman Eccles' statement, Mr. Kennedy, Assistant Chief of the Government Securities Section, Division of Research and Statistics of the Board of Governors, joined the meeting.

Mr. Sproul stated that the suggestion might be made to the Treasury that a 1-1/4 per cent note be offered during the drive in lieu of the 7/8 per cent certificate.

Mr. Piser pointed out that, if certificates were to be offered at the end of the drive on an allotment basis for delivery on May 1, the offering would have to be announced several days before that date. In a discussion of this point, the suggestion was made that the issue of certificates maturing on May 1 might be paid off and a new issue announced at the end of the April drive with payment on the subscriptions in May.

All of these possibilities were discussed, and there was tentative agreement that a program along the lines suggested by Messrs. Eccles and Sproul should be proposed by the members of the executive committee when they meet with the Treasury this afternoon.

The meeting then recessed and reconvened at 4:30 p.m. with the same attendance as at the beginning of the morning session except that Messrs. Dreibelbis, Rice, and Berntson were not present.

Mr. Sproul made a statement substantially as follows:

> At the meeting of the Treasury today Under Secretary of the Treasury Bell, after reviewing the estimated need for funds over the next few months, stated that it was the present plan to raise $13,000,000,000 in the April financing drive, exclusive of savings bonds in the amount of $800,000,000, tax notes in the amount of $600,000,000, and Treasury bills in the amount of $800,000,000, or a total during the financing period of $15,200,000,000.
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> There was a discussion of the question of the amount of excess reserves that should be maintained during the financing period, and Mr. Bell mentioned $2,500,000,000. Chairman Eccles stated as the view of the members of the Board and the Presidents that it would be undesirable to fix any figure of excess reserves to be maintained during the financing or for the System to make any commitment in that connection. He discussed the use of Treasury bills as excess reserves and the difficulty, as indicated by the experience during the December drive, of attempting to force any volume of excess reserves into the market as long as the present bill program continued.
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> With respect to the types of securities to be offered during the present drive, Chairman Eccles stated the reasons previously discussed by us why it was believed certificate issues should not be used to raise nonbank funds but should be used to obtain funds from banks between drives. It was also stated that it was the feeling of the Federal Reserve representatives that the securities offered during the drive should be a 2-1/2 and

a 2 per cent bond and possibly a 1-1/4 per cent note. If because of the shortness of time for organization of the selling drive, and the large amount of funds to be raised, it was not possible to carry out this kind of a program in connection with the April drive, it should certainly be the policy in future drives not to offer certificates in unlimited amounts to the public.

In connection with the timing of the offering, it was suggested by the Federal Reserve representatives that the 2 per cent bond be offered at the beginning of the drive to banks and to others throughout the drive together with the 2-1/2 per cent bond the lowest denomination of which would be $100, and that these issues and the 1-1/4 per cent note, savings bonds, Series C tax notes, and $200,000,000 of new money each week from bills would provide all of the funds that would be needed, except that at the end of the drive a certificate might be offered for the purpose of obtaining such additional amount of funds as might be necessary to make the drive fully successful.

Mr. Bell discussed the use of certificates in the last war and suggested that consideration be given to the possibility of adopting a similar procedure in connection with future financing. We again took the position that the sale of certificates to banks between drives and their refunding with the proceeds of bonds sold during drives, as in the last war, might be a way of meeting our suggestion that certificates should only be offered to banks between drives and that longer-term securities should be offered to investors other than banks during the drives.

Chairman Eccles said that when the Secretary of the Treasury joined the conference there was a further discussion of the amount of funds to be raised during the April drive and that it was stated that the members of the Board and the Presidents felt that $15,000,000,000 was too high a figure, that $14,000,000,000 was the maximum that should be set as a goal, and that some felt that $12,000,000,000 or $13,000,000,000 was all that should be asked for, with the understanding that there would be some bank financing between drives. The Secretary, Chairman Eccles said, did not disagree with this position and requested that the members of the executive committee return to the Treasury on Tuesday, March 9, at 11:00 a.m. for a further discussion of the whole program.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.