

TWENTY-NINTH
ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1942

MEETING ON SEPTEMBER 28, 1942

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Williams, Mr. Gilbert, Mr. Young, Mr. Leedy.

1. Amended Direction to the Federal Reserve Banks to Purchase Treasury Bills at the Posted Discount Rate.

Upon motion duly made and seconded, the following amended direction to the Federal Reserve Banks was approved, Messrs. Eccles, Ransom, Draper, Evans, Williams, Gilbert, Young, and Leedy voting "aye" and Messrs. Sproul, Szymczak, and McKee voting "no":

"Until otherwise directed by the Federal Open Market Committee, the twelve 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 $\frac{3}{8}$ 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.

"The Federal Reserve Bank of New York, as agent for the System account, is directed to transfer to the respective Federal Reserve Banks as promptly as convenient all unmatured bills held in the System account which were purchased by such Banks for System account under an option retained by the seller to repurchase and such bills shall be received and held by such Federal Reserve Banks subject to the first paragraph of this direction."

It had been the practice of the Federal Reserve Banks in purchasing bills at the posted discount rate of $\frac{3}{8}$ per cent to make such purchases for delivery the following full business day, the customary market practice, it being understood that in the case of an emergency, in order to provide funds immediately, the purchase would be made for immediate delivery. Repurchases by the original sellers of the bills had been on the same basis, i. e., for delivery the following full business day. Under this arrangement there was time for the bills purchased at individual Reserve Banks to be transferred to and held in the System open market account. Inasmuch as the purpose of the arrangement for the purchase of bills under the repurchase option was to broaden the market through a wider distribution of bills and to increase the use of bills as investments for idle funds, it was the opinion of the majority of the members present that the accomplishment of this purpose would be promoted if a further step were taken to make the bills the equivalent of cash such as would be the case if, in addition to the privilege of selling them to the Federal Reserve Banks for immediate credit, they were available at the Federal Reserve Banks for immediate delivery when repurchase was desired. The revised arrangement required that bills subject to the option be held by each Federal Reserve Bank in a special account separate from its participation in the System open market account. In published statements such bills are combined with bills held in the System account.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee, which was in the same form as the direction approved at the meeting on August 3, 1942, was approved unanimously:

"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, or for the purpose of granting temporary accommodation to the Treasury; provided that the aggregate amount of securities held in the account at the close of this date (other than Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of April 30, August 3, and September 28, 1942) shall not be increased or decreased by more than \$1,000,000,000."

Consideration of open market policy at this meeting took into account (1) the actions which had been taken by the Board of Governors to decrease required reserves of member banks in central reserve cities effective August 18, 1942, from 26 per cent to 24 per cent of net demand deposits and effective September 14, 1942, from 24 per cent to 22 per cent of such deposits; (2) the discussions by members of the Federal Open Market Committee with representatives of the Treasury relating to the financing program and to Federal Reserve policy, and (3) the respective parts that open market operations, changes in reserve requirements and changes in discount rates at the Federal Reserve Banks might play in carrying out Federal Reserve policies. It was pointed out that, if reductions in reserve requirements alone were relied upon to furnish needed bank reserves, required reserves could be expected to decline almost to the vanishing point by the end of 1943, and there was unanimity of opinion that the System should not rely upon any single power to the exclusion of others in the field of credit control, but that it should use any or all of its powers as circumstances might arise. Specifically, it was the opinion of a majority of those present that, if a further reduction in reserve requirements of member banks in central reserve cities from 22 per cent to 20 per cent of net demand deposits were made by the Board of Governors, no further action should be taken by the Board in this field for the time being and that whatever additional funds were needed to finance the war should be supplied through open market operations as directed by the Federal Open Market Committee. It was agreed that, if this course were followed, substantially larger purchases of securities for the System open market account would be necessary but that, inasmuch as purchases of Treasury bills at the fixed discount rate were not to be limited in amount by the terms of the directions which had been approved by the Committee, the renewal of the existing directions of the full Committee to the executive committee should be sufficient to meet the situation for the time being, with the understanding that increased authority for additional purchases could be granted upon telephonic, telegraphic, or written approval of a majority of the members of the full Committee if such action were found to be desirable.