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, June 22, 1942, at 10:30 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. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. John H. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
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. 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. Clayton, Assistant to the Chairman of the Board of Governors

Mr. Smead, Chief of the Division of Bank Operations of the Board of Governors

Mr. Sienkiewicz, Secretary of the Presidents' Conference

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 May 8, 1942, 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 May 8, 1942, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from May 8 to June 20, 1942, inclusive, as reported by Mr. Rouse at the meeting of the executive committee immediately preceding this meeting, at which all members of the Federal Open Market Committee were present, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the purchase by the New York Bank as of June 16, 1942, of the special Treasury certificate of indebtedness in the amount of $58,000,000 and the handling for the System account, in the manner outlined by Mr. Rouse at the meeting of the executive committee, of the special certificates subsequently purchased were approved, ratified, and confirmed.

Chairman Eccles stated that, since the last meeting of the Committee, members of the executive committee and of the staff had had several discussions and telephone conversations with representatives of the Treasury relating to Treasury financing, that an informal arrangement had been made under which members of the executive committee meet usually every two weeks with Mr. Bell and members of the Treasury staff for the purpose of discussing problems relating to Treasury financing, and that in accordance with this arrangement it was contemplated that another conference would be held on Tuesday, June 23, 1942, at 3:00 p.m.

Chairman Eccles then reviewed briefly the important problems relating to Treasury financing which had been considered with the Treasury since the last meeting of the Federal Open Market Committee. He stated that, because of the success of the May financing and the very substantial increase in the amount of tenders for Treasury bills resulting from the efforts of the Federal Reserve Banks, the pressure for a reduction in reserve requirements of member banks had been greatly relieved. He also said that in one of the recent conferences the position had been taken by the Federal Reserve representatives that there should be further increases in the weekly offerings of Treasury bills to a point where some of the bills purchased would be offered to the Federal Reserve Banks by holders, and that as a result of discussions at the conference Secretary Morgenthau indicated that the weekly offering of bills would be increased by an additional $50,000,000 beginning July 1, 1942. He added that it was felt that this method of supplying reserves to the market gradually as they were needed was much to be preferred to an over-all reduction in reserve requirements, which would increase excess reserves by a large amount, with possible disturbing effects on short-term rates. If the bill which would give the Board authority to reduce reserve requirements for banks in central reserve cities were passed, Chairman Eccles said, it might be found desirable to reduce requirements at those points gradually as a means of supplying needed reserves without taking action looking toward a general reduction in reserve requirements.

Chairman Eccles made the further statement that in all of the conferences with the Treasury members of the executive committee had urged that everything possible be done to devise issues of securities which would be taken by nonbank investors, and thereby reduce the amount of Government financing that would have to be done through the banks. In this connection, he suggested that it would be helpful if the Presidents' Conference, in its separate session tomorrow, would adopt a statement for submission to the Treasury recommending that types of securities be designed that could be used effectively in reaching the different kinds of funds available, other than bank funds, for investment in Government securities, and that responsibility be placed upon the Victory Fund Committees to see that these securities were sold. He said that these Committees could be fully effective only if they were given an opportunity to sell securities of a type or types which would attract the maximum amount of funds from outside the banking system, and that it was his feeling that if this were done it might be possible for the Treasury to raise as much as $1,000,000,000 a month through the medium of these issues. He felt that it would be extremely helpful if a determination could be made of the maximum amount of funds that it would be possible to get outside the banks so that the extent to which the banks would have to be relied on could be ascertained and decisions reached on that basis on questions of policy with respect to open market operations and changes in reserve requirements.

In a statement by Mr. Sproul supplementing Chairman Eccles' comments, he referred to the attitude of the bankers with whom the Treasury had consulted that it would be unwise to increase the number of nonmarket issues, and this point was discussed. He also stressed the fact that the present situation was one in which the Federal Open Market Committee could not do anything more than was being done until the remaining major problems relating to a Treasury financing program had been decided by the Treasury, which would furnish a basis upon which System open market policy could be determined. He added that, with this in mind, he sent to Chairman Eccles under date of June 19 a list of questions which he felt should be discussed with the Treasury and which would indicate to the Presidents the questions that he thought should be decided from the standpoint of a financing program.

Messrs. Goldenweiser and John H. Williams were then called upon for statements, and they discussed some of the effects of the war on the economy and the problems of war financing during and following the war period. Summaries of their comments have been placed in the files of the Federal Open Market Committee.

In the discussion which ensued, there was agreement upon the position that, from the standpoint of credit control, it was highly desirable during the war period to sell securities as far as possible outside the banks so as to avoid the creation of an unnecessarily large volume of additional deposit funds and a resulting reserve situation over which the Federal Reserve System would have no effective power of control in the period following the war when the pressure for relaxation of direct methods of control would be very strong.

At the conclusion of the discussion, Chairman Eccles suggested that while the Presidents were in Washington there be a discussion of the list of questions which had been suggested by Mr. Sproul for consideration with the Treasury, so that the members of the executive committee would have the benefit of the views of the Presidents in their conferences with the Treasury representatives.

Mr. Sproul proposed that, inasmuch as further developments in System open market policy were dependent upon decisions by the Treasury in connection with the financing program, consideration be given at this point to the instructions to be issued by the Federal Open Market Committee to the executive committee, after which the views of the Presidents could be obtained on the matters to be discussed with the Treasury representatives in future conferences.

The suggestion was made that the resolution adopted by the full Committee should include language expressly authorizing such transactions in the System account as might be necessary in the practical administration of the account. In addition, Mr. Wyatt suggested that, in order that the language of the resolution might clearly cover the purchase of special short-term certificates of indebtedness to prevent Treasury overdrafts, the resolution should expressly authorize transactions for the purpose of granting temporary accommodation to the Treasury.

> There was unanimous agreement that both of these changes in the resolution should be made, and, 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, 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 direction of the Federal Open Market Committee issued under date of April 30, 1942) shall not be increased or decreased by more than $500,000,000.

The meeting then recessed and reconvened at 2:15 p.m. for the purpose of considering the list of topics submitted by Mr. Sproul for discussion with representatives of the Treasury. The attendance was the same as at the morning session except that Messrs. Dreibelbis, Clayton, Smead, and Berntson were not present.

At the beginning of the discussion, Chairman Eccles stated that it was assumed that there was no difference of opinion on the part of the members of the Board and the Presidents of the Federal Reserve Banks that a reduction in reserve requirements should be avoided as long as possible and that a program of Government financing should be devised which would result in as much of the necessary financing as possible being done outside the banks. No disagreement with Chairman Eccles' statement was indicated.

There was a discussion of a question raised by Mr. Peyton as to the amount of additional funds that could be attracted into bills by a slightly higher rate. Mr. McLarin suggested that consideration be given to an arrangement under which the investor could purchase bills at a fixed rate up to a certain amount and could bid for any bills desired in excess of that amount.

At Chairman Eccles' request, a memorandum prepared by Mr. Piser under date of March 19, 1942, on the subject of Canadian financing was read. Chairman Eccles stated that the memorandum indicated that Canada was doing a very much better job in financing its requirements outside the banks than was being done in this country.

On the question of the amount of bills and certificates of indebtedness that might be issued by the Treasury, Mr. Sproul suggested that the Treasury could very well gradually increase its bill offerings to $400,000,000 weekly and could offer certificates of indebtedness in the amount of $1,500,000,000 or $2,000,000,000 each quarter, which would result in a total of between $11,000,000,000 and $13,000,000,000 of short-term obligations outstanding. He also expressed the opinion that this volume of short-term securities would be well within the capacity of the market to absorb and would be desirable in the light of the volume of financing to be done, even if it were necessary to increase the rate on bills to 1/2 per cent to reach that volume. In response to an inquiry, he stated that he felt the Treasury should adopt a fixed rate and a fixed maturity on the certificates of indebtedness, and that, if the bill rate were 1/2 per cent, he would consider a rate of 5/8 per cent for a six months' certificate or 3/4 per cent for a nine months' certificate as desirable. In the discussion of Mr. Sproul's suggestion, it was pointed out that if a short-term open-end issue were offered it might not be necessary to have as large a volume of bills and certificates outstanding as otherwise might be the case.

Mr. Ransom doubted the wisdom of raising with the Treasury at this time the question of an increase in short-term rates. Mr. Sproul suggested that the System representatives could not advocate an increase in the volume of outstanding short-term securities without taking the position that they would approve some increase in rate if it should develop that that was necessary. The point was made in this connection, however, that assurance should be given that, if the rate on bills were increased, bills purchased before the increase could be sold to the Federal Reserve Banks at the discount rate of 3/8 per cent as long as they were outstanding. There was unanimous agreement that any change in the rate at which the Federal Reserve Banks should stand ready to buy bills should not affect the buying rate already established as to bills outstanding at the time of the change.

Mr. Ransom suggested that consideration be given to the possibility of maintaining present rates for the duration of the war. The discussion did not develop an agreement on this point.

At Chairman Eccles' request, copies of a memorandum prepared by Mr. Kennedy of the Board's staff on the subject of distribution of Treasury bills were handed to the Presidents at this point. Mr. Goldenweiser referred to a chart showing the decline in recent years in the proportion of short-term Government securities to the total outstanding direct debt and suggested that there was ample justification for increasing the proportion of such securities.

With respect to proposals to increase to $5,000 the amount of Series A tax anticipation notes which could be purchased in any one calendar year and to increase the rate of interest paid on Series B tax anticipation notes to .60 per cent, it was agreed that the increase in the limit on the Series A notes might be recommended to the Treasury and the suggestion made that consideration be given to increasing the rate on the Series B notes at the proper time.

There was a discussion of whether the short-term open-end registered issue which had been suggested to the Treasury should be made available to banks as a means of meeting the objection that the banks were the best customers of the Treasury, that they were denied the opportunity of subscribing for riskless issues offered by the Treasury, and that they could buy only market issues on which they assumed market risks. There was general agreement that the short-term open-end issue was desirable, that the executive committee should continue to urge its use, and that as a means of making the issue more attractive it should be made eligible as collateral for borrowing from banks.

Chairman Eccles stated that it was contemplated that the Treasury would be faced with the necessity of doing about $4,000,000,000 of new financing in July and August in addition to savings bonds and tax anticipation notes. He said that it was expected that the 2-1/2 per cent registered bond would be reopened and the weekly offering of bills increased, but that there would still be approximately $3,000,000,000 which would have to be financed by market issues, and that he was of the opinion that, if the short-term open-end issue were offered and the Victory Fund Committees given the responsibility for selling it, as much as $1,500,000,000 or $2,000,000,000 could be reached by that means. He inquired whether the Presidents thought the Victory Fund Committees could sell as much as $1,500,000,000 of the short-term issue. Some of the Presidents replied in the affirmative while others felt they had no basis for estimating the amount which might be sold. They also expressed the opinion that it was important that the Victory Fund Committees be given something specific to do, and the suggestion was made that the Presidents' Conference, in its separate session tomorrow, adopt a statement to that effect which could be transmitted to the Treasury. Mr. Davis suggested that since Messrs. Sproul and Alfred H. Williams had participated in the conferences with the Treasury they undertake the preparation of a draft of such a statement for consideration by the Presidents' Conference.

In connection with a discussion of the desirability of split offerings and serial issues, Mr. Davis inquired whether the Board had made an analysis of the latter. Chairman Eccles stated that Mr. Piser discussed this proposal in a memorandum dated May 27, 1942, and copies of the memorandum were distributed to the Presidents during the meeting. It appeared to be the sense of the meeting that, because of the difficulty of pricing split offerings, they should be avoided as much as possible and that the objections to serial issues outweighed the advantages they might have.

Question was raised whether the 2-1/2 per cent registered issue should be reopened in connection with the forthcoming financing in July and August. The opinion appeared to be that this was desirable and that the announcement of such offering should be made before July 6 when the 60-day period during which the outstanding issue could not be traded would expire, so that trading in the issue would not begin at a premium which would be eliminated if the reopening of the issue were subsequently announced. Mr. Sproul suggested that the issue might be kept open for a considerable time and that it should be made eligible for use in payment of estate and inheritance taxes. This suggestion appeared to be concurred in by the Presidents.

In connection with a discussion of the responsibility of the Victory Fund Committees with respect to Series F and G war savings bonds, Chairman Eccles stated that, although it was now understood by the Treasury that the Committees would do whatever they could to assist in the sales of these securities, the matter required some clarification, as its present status was not satisfactory from the standpoint of the Committees.

Thereupon, the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.