

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, July 22, 1942, at 2:30 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Szymczak  
Mr. Alfred H. Williams  
Mr. McKee (alternate for Mr. Draper)

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Goldenweiser, Economist  
Mr. John H. Williams, Associate 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. Ransom, member of the Federal Open Market Committee

Chairman Eccles stated that, in addition to purchases by the Federal Reserve Banks for System account of all Treasury bills offered to them at a  $3/8$  per cent discount rate, the Federal Reserve Bank of New York, in order to put funds into the market, had purchased for System account bills with maturities shorter than three months at rates of discount less than  $3/8$  per cent. He said that the Washington members of the executive committee had discussed the matter informally and felt that purchases at the lower rates should be discontinued, that he had also discussed the matter with Mr. Sproul, that under date of July 16, 1942, the latter addressed a memorandum to the members of the executive committee (copies of which had also been furnished to the other Washington members of the Federal Open Market Committee), in which the position

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was taken that the present practice was desirable, and that this meeting had been called for the purpose, among others, of giving further consideration to that question.

There ensued a general discussion of the question whether such purchases should be continued, particular attention being given to (1) the position in which the System was placed by purchasing bills in the New York market at a higher price than the posted rate, (2) the effect on the bill market and the Treasury's bill program of the discontinuance of such purchases, (3) the effect of such purchases or the absence of such purchases on rates for bills, (4) the differences between purchases of bills offered at the  $3/8$  per cent rate and purchases initiated in the market by the New York Bank to supply funds to the market, and (5) whether purchases at lower rates were in harmony with the intention of the direction issued by the Federal Open Market Committee to the Federal Reserve Banks to purchase all bills offered at a  $3/8$  per cent rate. It appeared that there was not complete unanimity as to the conclusions that should be reached on these questions.

In these circumstances, upon motion duly made and seconded, and by unanimous vote, it was agreed that action on the matter should be deferred pending further consideration of the problem at the next meeting of the Federal Open Market Committee to be called to convene in Washington on August 3, 1942, at 10:00 a.m.

It was stated that since the meeting of the Federal Open Market Committee on June 22, 1942, the Federal Reserve Bank of New York had made net purchases for the System account of \$526,956,000 of Government

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securities (exclusive of Treasury bills purchased at the 3/8 per cent rate) for the purpose of putting funds into the market. In order to make it possible for the Bank to effect such purchases, it had been necessary for the members of the executive committee on July 1 to increase from \$200,000,000 to \$350,000,000 the limitation on the Bank's authority to increase or decrease the total amount of securities in the account (exclusive of bills purchased at the 3/8 per cent rate and special short-term certificates of indebtedness). At the same time, the authority to purchase special short-term certificates for the temporary accommodation of the Treasury was reduced to \$150,000,000. On July 6, 1942, following an increase from \$500,000,000 to \$850,000,000 in the limitation on the authority granted by the members of the full Committee to the executive committee to increase or decrease the total amount of securities held in the account, the \$350,000,000 limitation on the authority of the New York Bank was increased to \$500,000,000 and on July 14 the limitation was further increased to \$600,000,000.

Upon motion duly made and seconded, and by unanimous vote, the actions taken by the members of the executive committee on July 1, 6, and 14, 1942, with respect to the authority of the Federal Reserve Bank of New York to effect transactions in the System account were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on June 22, 1942, were approved.

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Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from June 22 to July 21, 1942, inclusive, as reported by the Federal Reserve Bank of New York to the members of the executive committee, were approved, ratified, and confirmed.

Mr. Rouse stated that with the redemption of bills maturing today the Federal Reserve Bank of New York would have unused authority to increase the System account by approximately \$109,000,000, and Mr. Sproul said that he felt that adequate provision would be made for the time being if the present limitation of \$600,000,000 on the authority of the New York Bank to increase the System account, other than by purchases of Treasury bills at the 3/8 per cent rate, were increased by an additional \$100,000,000.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York, until otherwise directed by the executive committee,

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, 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, of maintaining an adequate supply of funds in the market, or of granting temporary accommodation to the Treasury; provided (a) that the total amount of securities in the account at the close of June 22, 1942, shall not be increased or decreased by more than \$700,000,000, and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the direction of the Federal Open Market

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Committee issued under date of April 30, 1942, or the redemption of such bills; and

(2) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other purchases, sales, or exchanges for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

Chairman Eccles referred to the discussion had this morning by members of the executive committee and other Washington members of the Federal Open Market Committee with representatives of the Treasury on the subject of Treasury financing. He stated that, inasmuch as no agreement was reached at the meeting as to the financing program that should be followed in the future, and since Secretary of the Treasury Morgenthau undoubtedly would call the members of the executive committee for consultation in connection with the August financing, it would be his (Chairman Eccles') suggestion that the members of the executive committee agree upon a statement of their position as to what the financing program should be, which could be presented to and discussed with Secretary Morgenthau.

Following a statement by Mr. John H. Williams that in future discussions with the Treasury a clear distinction should be drawn between the problem of a reduction in reserve requirements of member banks and the problem of Treasury financing, the suggestion was made that the Treasury be asked to designate two members of its staff to work with Messrs. Goldenweiser and John H. Williams in an effort to formulate in writing the questions which the Treasury and the Federal Reserve System

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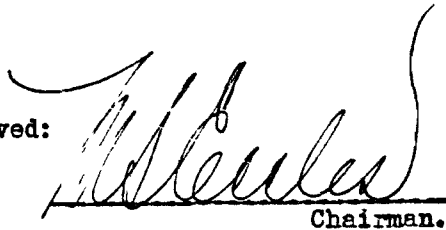
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must decide before the next Treasury financing operation is undertaken. The purpose of such a statement would be to provide a clarification of the issues involved, on the basis of which the members of the executive committee could prepare a statement of their position with respect to Treasury financing for presentation to and discussion with Secretary Morgenthau.

This suggestion was agreed to unanimously, and Chairman Eccles stated that he would call Under Secretary of the Treasury Bell on the telephone and suggest that he designate two senior staff members of the Treasury to work with Messrs. Goldenweiser and Williams on the preparation of the statement.

Thereupon, the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.