

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 Tuesday, March 28, 1944, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. McKee
Mr. Draper
Mr. Leach

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. Rouse, Manager of the System Open
Market Account
Mr. Piser, Chief of the Government Securities Section, Division of Research and Statistics of the Board of Governors

Following the meetings of the Federal Open Market Committee and its executive committee on March 1, 1944, and in accordance with the authority granted at the meeting of the full Committee, the members of the executive committee approved (1) a revised statement of the terms upon which the Federal Reserve Bank of New York will transact business with brokers and dealers in United States Government securities for the System open market account and (2) a statement with respect to the procedure for presenting Federal Reserve recommendations to the Treasury in regard to important matters of Government financing. The two statements in their final form were sent to the Treasury on March 21 and 25, 1944, respectively, and have been incorporated in the minutes of the meeting of the Federal Open Market Committee on March 1, 1944.

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Upon motion duly made and seconded, and by unanimous vote, the actions of the members of the executive committee in approving the two statements were approved, ratified, and confirmed.

Pursuant to the instructions of the full Committee to the executive committee, copies of a draft of a letter of instructions to the Federal Reserve Bank of New York in connection with the statement of terms had been sent to the members of the executive committee for consideration at this meeting. The draft read as follows:

"At its meeting on February 29, 1944, the Federal Open Market Committee approved in substance a statement of proposed terms upon which the Federal Reserve Bank of New York would transact business with brokers and dealers in United States Government securities for the System open market account. This action was taken with the understanding (1) that the executive committee was authorized to make such changes in the form of the statement of terms as appeared to be desirable, (2) that the procedure would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (3) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder.

"A copy of the statement of terms as prepared in consultation with you and Mr. Rouse and as approved by the members of the executive committee is enclosed, and there are set forth below the instructions issued to the New York Bank in connection with the statement pursuant to the authority granted by the full Committee on February 29, 1944:

1. The Federal Reserve Bank of New York shall furnish copies of the statement of terms to each broker or dealer in Government securities with whom the Bank has been transacting

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"business on behalf of the System open market account, and to such other brokers and dealers as evidence to the Bank an interest in qualifying and in the opinion of the Bank would have a reasonable chance of qualifying. On and after April 15, 1944, the New York Bank will transact business on behalf of the System open market account only with the brokers and dealers who meet the qualifications, have executed the agreement, and comply with the terms set forth in the statement.

2. When the statement has been presented to the brokers and dealers with whom transactions are now conducted for the System open market account, the Bank shall give copies to representatives of the press informally as a formalization of existing procedure.

3. The Bank shall keep the executive committee of the Federal Open Market Committee informed of each broker and dealer with whom it ordinarily transacts business and of each addition to, or removal from, the list of qualified brokers and dealers.

4. The Bank shall encourage the observance of high standards of commercial honor and just and equitable principles of trade by the brokers and dealers in Government securities, through the medium of the Bank's contacts with the brokers and dealers and the Government Security Dealer Group or any other similar organization that may exist or develop.

5. When any broker or dealer has been removed from the list of qualified brokers and dealers for failure to meet the qualifications set forth in the statement of terms or for willful violation of or failure to perform any of the terms and conditions set forth in the agreement, and the Bank is satisfied that he has taken appropriate steps to correct any default and to prevent the occurrence of similar defaults in the future, the Bank may restore him to the list of qualified brokers and dealers and resume the transaction of business with him, after obtaining the consent of the executive committee of the Federal Open Market Committee.

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"A copy of the letter being sent today to the Presidents of the other Federal Reserve Banks in connection with this matter is enclosed."

Upon motion duly made and seconded, and by unanimous vote, the letter was approved, together with the following letter to the Presidents of the other Federal Reserve Banks, with the understanding that both letters would be sent upon approval of the Chairman and Vice Chairman of the executive committee of the Federal Open Market Committee after their meeting with the Secretary of the Treasury on March 29:

"You will recall that at the meeting of the Federal Open Market Committee on February 29, 1944, the Committee approved in substance a statement of proposed terms upon which the Federal Reserve Bank of New York would transact business with brokers and dealers in United States Government securities for the System open market account. This action was taken with the understanding (1) that the executive committee was authorized to make such changes in the form of the statement of terms as appeared to be desirable, (2) that the procedure would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (3) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder.

"A copy of the statement of terms is enclosed in the form approved by the executive committee. A copy of the letter containing the instructions of the executive committee to the Federal Reserve Bank of New York in connection with the statement is also attached.

"When the statement has been presented to the brokers and dealers with whom the Federal Reserve Bank of New York now does business for the System account, it will be handed by the Bank informally to representatives of the press as a formalization of existing procedure.

"If any broker or dealer in your district evidences an interest in qualifying under the terms of the statement

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"as a broker or dealer with whom the Federal Reserve Bank of New York would do business for the System account, and in your opinion such broker or dealer would have a reasonable chance of qualifying, it is requested that you furnish him a copy of the statement, and, in the event he desires to pursue the matter further, that you so inform the manager of the System account, giving him such information with respect to the broker or dealer as you think would be of value in determining whether he should be qualified. It is assumed that if a broker or dealer in your district should take up the matter of qualifying directly with the New York Bank, the Bank would request your views before reaching a decision."

Chairman Eccles stated that the Treasury was in the midst of its study of plans for the Fifth War Loan Drive, that it was expected that a formal announcement of the drive would be made later this week, and that the Secretary of the Treasury had requested a meeting with members of the executive committee tomorrow, March 29, at 11:00 a.m. for the purpose of considering such recommendations with respect to the financing as the representatives of the Federal Reserve System might wish to make.

During a discussion of the recommendations to be submitted to the Treasury with respect to the next drive, reference was made to (1) a memorandum prepared by Mr. Sproul and sent by him to the other members of the executive committee under date of March 25, 1944, (2) a memorandum dated March 25, 1944, from Mr. Piser as representing the views of Chairman Eccles, and (3) a letter addressed to Chairman Eccles by Under Secretary of the Treasury Bell on March 27, 1944, outlining points on which the Treasury would like to have the advice

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and recommendations of the members of the executive committee.

At the conclusion of the discussion, which continued following a recess for luncheon, it was understood that Messrs. Rouse and Piser would prepare a draft of statement of the recommendations of the executive committee along the lines agreed upon during the discussion, with the understanding that the committee would meet again tomorrow morning to approve the statement.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee of the Federal Open Market Committee held on February 29 and March 1, 1944, were approved.

Mr. Rouse reviewed the transactions effected for the System account since the last meeting of the executive committee and discussed briefly certain effects on the market of the recent references in the press to the proposal of the House Ways and Means Committee to simplify the individual income tax structure by a reduction in the normal tax from 6 per cent to 3 per cent, the elimination of the victory tax, and an increase in the surtax.

Following Mr. Rouse's statement, the transactions in the System account during the period February 29 to March 27, 1944, inclusive, were approved, ratified, and confirmed.

On March 8, 1944, the Federal Reserve Bank of St. Louis called Mr. Rouse to say that it was expected that, because of the terms of

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Missouri tax laws, banks in that State would tender to the Federal Reserve Bank during the next day or two a substantial amount of Treasury bills, and that if the Reserve Bank purchased and held all of the bills there would be a disproportionate reduction in its reserve ratio which it would like very much to avoid. Mr. Rouse had suggested that, because of the accounting work that would be involved in taking the bills into the System account, the situation be met by the Federal Reserve Bank of St. Louis asking other Reserve Banks with relatively high reserve ratios to purchase the bills on a temporary basis from the Federal Reserve Bank of St. Louis, with the understanding that that Bank would buy them back when the original holders were ready to repurchase from the St. Louis Bank or at the earliest possible date consistent with its reserve position. This procedure was approved by all of the members of the executive committee and was carried out accordingly.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee in this connection was approved, ratified, and confirmed.

All of the members of the executive committee were in agreement that the direction of the committee to the New York Bank to execute transactions for the System account should be renewed in the form in which it was issued at the meeting of the committee on March 1, 1944.

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,

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(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, or of maintaining an adequate supply of funds in the market; provided (a) that the total amount of securities in the account at the close of March 28, 1944, shall not be increased or decreased by more than \$750,000,000 (exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction), and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of June 28, 1943, and March 1, 1944, or the redemption of such bills;

(2) To purchase direct from the Treasury for the System open market account 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 total amount of such certificates held in the account at any one time shall not exceed \$750,000,000; and

(3) 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.

In taking this action, it was understood that the limitations contained in the direction included commitments for purchases or sales of securities for the System account.

Thereupon the meeting recessed with the understanding that it

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would reconvene again tomorrow, March 29, at 10:00 a.m.

Chester Morrie
Secretary.

Approved:

W. Stiles
Chairman.

The meeting of the executive committee of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, March 29, 1944, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. McKee
Mr. Draper
Mr. Leach

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. Rouse, Manager of the System Open Market Account
Mr. Piser, Chief of the Government Securities Section, Division of Research and Statistics of the Board of Governors

Copies of the following memorandum dated March 29, 1944, which had been prepared in accordance with the conclusions reached at the meeting of the committee yesterday, were distributed and the memorandum was read:

"RECOMMENDATIONS BY EXECUTIVE COMMITTEE OF FEDERAL OPEN MARKET COMMITTEE TO SECRETARY OF THE TREASURY

"Before making specific recommendations on the points mentioned by Under Secretary Bell in his letter of March 27, we should like to state certain general principles that are fundamental to our recommendations.

"The main objectives of Treasury financing policy and of credit administration, of course, are still the borrowing of the maximum possible amount from nonbank investors while maintaining an interest rate structure with a maximum market borrowing rate of 2 1/2 per cent. There is no question of our ability to maintain the maximum borrowing rate of 2 1/2 per cent, but we are still measurably short of the goal of maximum borrowing from nonbank investors.

"It seems to us that the Treasury's current estimates of sales to nonbank investors are too conservative in view of both the performance of the Treasury sales organization during the past two years and the amount of funds that are shown to be available by all estimates of current savings. The net absorption of Government securities by nonbank investors, exclusive of Federal agencies and trust funds, is forecast by the Treasury as 33.3 billion dollars for the calendar year 1944. Since 1944 will include three drives and will begin and end with a drive, it seems likely that a larger amount of funds should be raised than in previous annual periods. In the year ending October 1943, which included three drives, nonbank investors absorbed 34.7 billion dollars of Government securities, and in the year ending February 1944, which also included three drives, nonbank investors absorbed about 36.4 billion. It should be possible in 1944, therefore, for the Treasury to sell 36 billion dollars net to nonbank investors, and with continued improvement in the sales program this amount could be further increased. It is recognized that the figures given above include sales in the first and second drives, when some idle funds that are no longer available were reached. On the other hand, the organization of the drives has improved, and there has been considerable repayment of private debt, which is releasing funds and increasing the number of potential investors. The reduced rate of increase in national income this year should mean that nonbank investors will have less need to accumulate bank balances than in the past.

"For these reasons, we believe that Treasury estimates of sales to nonbank investors in 1944 are unduly low. Regardless of the amounts that may be taken by nonbank investors, however, it is our opinion that sales to banks should be considered as residual financing, to which the Treasury should have recourse only as a matter of last resort. There is no question of the ability and the willingness of the Reserve System to provide the reserve funds needed to assure the success of this residual financing whenever necessary. We believe, however, that direct bank financing should not be countenanced until even more vigorous efforts have been made to sell an increased amount of securities to nonbank investors and until the Treasury is in need of funds to maintain its working balance at the minimum level that it considers advisable. In view of the figures submitted in the tabulation accompanying Under Secretary

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"Bell's letter, it does not appear that the latter condition can arise until after the fifth drive and there is, therefore, time further to test present estimates of non-bank buying.

"In our opinion, the situation calls for

- (a) enlargement and strengthening of the sales organization,
- (b) changes in selling methods and security terms that will widen the nonbank market, and
- (c) increase in the bill rate. In selling securities to commercial banks further emphasis should be placed on bills rather than certificates and longer-term securities. Additional bills can be sold to banks, however, only if there is some increase in the rate. As we have indicated before, we feel that the present rate on Treasury bills is out of line with the remainder of the pattern of rates and that an increase is justified in order to reestablish bills as a market instrument.

"With this background in mind, we should like to make the following recommendations on the points mentioned by Under Secretary Bell:

1. The goal for the fifth drive has been set at 16 billion dollars, and no comment is required.
2. For the reasons outlined above, we believe the Treasury should do no direct bank financing, at least until after the fifth drive. Therefore, we recommend that there be no offering of certificates for cash in connection with the May 1 refunding. Decision as to a cash offering in connection with the August 1 refunding should be deferred until after the fifth drive.
3. In our opinion and for the reasons outlined above, the rate on Treasury bills should be increased to 1/2 of one per cent and the maturity extended to four months. By this means, not only would a more tenable market rate be established but the outstanding amount of bills could be increased by 4 billion dollars as funds are needed without increasing the present weekly offering of bills.
4. We recommend that the basket in the fifth drive be the same as in the fourth drive except for the substitution of 2 per cent fully marketable bonds for 2 1/4 per cent bonds of restricted marketability. We can see no

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"point in placing restrictions on the eligibility of 2 per cent bonds for bank purchase. In order that these bonds may not become a vehicle for renewed speculative purchases, however, we recommend that the Treasury forcefully renew its stand on speculative subscriptions, loans by banks to finance such subscriptions, and on subscriptions by dealers. The Treasury may wish also to consider the inclusion of 1 1/4 per cent notes in the drive as an additional means of obtaining funds from nonbank investors who are not interested in the rate on certificates or in the form of Series C notes and who do not wish to invest in longer-term securities.

5. Our opinion would be that the drive should begin on May 23 or 29 and should cover a period of three weeks, but on this point we believe that the recommendations of the sales organization should be decisive.

6. We recommend that nonbank investors be permitted to purchase securities in the drive on a partial-payment plan. Such purchases by insurance companies, savings banks, and pension funds, which will be in relatively large amounts, could be handled by the Treasury. Such purchases by other investors (minimum \$500) could be handled by commercial banks on the basis that the maximum rate charged would not exceed the rate on the securities.

We also recommend that the lowest denomination on marketable bonds be placed at \$100 in order to meet the needs of small investors who for one reason or another do not wish to place all of their funds in savings bonds. As a corollary to this recommendation and in view of the manpower and paper shortage, we recommend that the lowest denomination on Series G bonds be increased to \$500 and on Series E bonds to \$50.

7. We recommend that each commercial bank be permitted to increase its holdings of otherwise ineligible bonds to the smaller of the following amounts: (1) \$400,000 or (2) 20 per cent of its total of savings deposits and time certificates of deposit of individuals. The inclusion of individual certificates of deposit is recommended because in some areas of the country it is customary to use this type of instrument instead of savings pass books. The \$100,000 limit on holdings of Series F and G savings bonds would, of course, continue."

The memorandum was approved unanimously except that Mr. Draper was not in

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favor of the recommendations that the lowest denomination on marketable bonds be reduced to \$100 and that the lowest denomination on Series G savings bonds be increased to \$500.

It was understood that Messrs. Eccles and Sproul would attend the meeting at the Treasury this morning at 11:00 a.m. and that at that time they would present the memorandum as a statement of recommendations of the executive committee.

Chairman Eccles stated that in addition to the matters referred to in the memorandum he would also like to recommend to the Treasury (1) that in the next drive the goal for individual subscriptions be increased to \$6,000,000,000 and that the Treasury consider each State as going "over the top" only if the quotas for subscriptions by both individuals and other nonbank investors were exceeded, and (2) that the Treasury consider the issuance of a 5/8 per cent bill and doing all of its financing between drives through that medium, thereby making it unnecessary to offer certificates for bank subscription between the drives. It was agreed that there would be no objection to a discussion of these two matters at the Treasury.

Thereupon the meeting recessed and reconvened at 2:55 p.m. with the same attendance as at the morning session except that Mr. Rouse was not present.

Messrs. Eccles and Sproul reported on the discussions at the Treasury this morning substantially as follows:

The meeting was attended by Secretary Morgenthau, Under Secretary Bell, Chairman Eccles, Vice Chairman

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Sproul, and Mr. Haas, Director of Research and Statistics of the Treasury. Later Mr. Gamble, Assistant to the Secretary, was called into the meeting. The discussion for the first hour was in the Secretary's office, after which everyone except the Secretary went to Mr. Bell's office where the discussion was continued for another hour.

No reference was made to the letter which was sent to the Secretary on March 25, 1944, with respect to the procedure for presenting Federal Reserve recommendations on important matters of Treasury financing, but it was apparent from the small Treasury representation at the meeting that the letter had been considered.

The memorandum of recommendations of the executive committee was delivered to the Secretary and, after he had read it, he commented that it was an excellent statement and that after he and the Treasury representatives had had an opportunity to consider it he would discuss its recommendations with Messrs. Eccles and Sproul on the telephone.

The Treasury representatives were in complete agreement that everything possible should be done to finance as much as possible of the Government debt outside the banks and that bank financing should be delayed as long as possible. It seemed likely, therefore, that there would be no interim bank financing until after the Fifth War Loan Drive.

Following a discussion of the reasons for the recommendation that the bill rate be increased, the Treasury representatives indicated that they would give the matter consideration, but it did not appear that there was much likelihood that the recommendation would be accepted. During the discussion, Mr. Haas suggested that consideration might be given to a program which would contemplate the continuation of the 3/8 per cent bill in an amount equal to the bill holdings of the Federal Reserve Banks and the issuance of a 5/8 per cent bill for other holders.

There was general agreement on the securities to be included in the basket for the next drive, and the Treasury representatives did not oppose the inclusion of a 1-1/4 per cent note, Mr. Gamble taking the position that such an issue might open up an additional sales area.

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The drive is likely to begin the 14th of June for the reason that the majority of the sales organization favored the last two weeks in June and the first week in July and felt they could not be ready before that time. It was indicated that the Treasury felt it desirable to include July 1 in the period of the drive in order to take advantage of the dividend and interest payments that would become available on that date.

The Treasury representatives stated that they had been in favor of a partial-payment plan for a long time but that the banks appeared to be opposed to it because of their greatly reduced staffs, the increased work involved, and the feeling that not enough additional subscriptions would be obtained to justify trying to surmount these difficulties. However, this is a matter to which the Treasury representatives will continue to give some thought.

There was strong opposition to reducing the lowest denomination of marketable securities to \$100, but the Secretary requested Mr. Gamble to give further consideration to the suggestion. The reason suggested for not adopting the recommendation was the strong position that had been taken that the savings bonds were a protection against market risk and that to undertake now to sell market bonds in the lower denominations would put the Treasury in an inconsistent and dangerous position. There was also strong opposition to eliminating the \$25 Series E savings bond on the ground that, while a mistake might have been made originally in issuing Series E bonds in this denomination, it had become so firmly established in the sales program that it could not be discontinued at this time. The Secretary appeared to be unalterably opposed to this suggestion.

There seemed to be no objection to increasing the lowest denomination of the Series G savings bonds to \$500, but of course this change should not be made unless the lowest denomination of the marketable bonds were reduced to \$100.

No objection was offered at the Treasury to the proposed formula with respect to investment by banks having savings deposits in securities of restricted marketability.

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Chairman Eccles stated that he had come to the conclusion that a recommendation should be made to the Treasury that it issue a 5/8 per cent bill, and that he would like to amend the memorandum of recommendations approved by the executive committee to include that suggestion.

This proposal was discussed, and there was unanimous agreement that a supplemental memorandum should be prepared and sent to the Treasury, after approval by the members of the executive committee, recommending that the Treasury issue a 5/8 per cent bill.

Thereupon the meeting adjourned.

Chas. Norrie
Secretary.

Approved:

W. S. Eccles
Chairman.