

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, December 14, 1942, at 10:20 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
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. Goldenweiser, Economist
Mr. John H. Williams, Associate Economist
Mr. Wyatt, General Counsel
Mr. Rouse, Manager of the System Open Market Account
Mr. Clayton, Assistant to the Chairman 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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 28-29, 1942, were approved.

Early in October, in connection with the October Treasury financing, it became evident that it would be necessary for the System to purchase increased amounts of securities for the System account in order to carry out the policy which had been agreed upon. Therefore, on October 9 the members of the Committee increased to \$2,500,000,000 the limitation on the authority of the executive committee to increase or decrease the amount of securities in the System account. In connection

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with the development of the Treasury's program of December financing, informal assurances had been given to the Secretary of the Treasury by the members of the executive committee and the other members of the full Committee in Washington that the Committee would endeavor to maintain during the December campaign total excess reserves for the country as a whole at not less than \$2,500,000,000 with around \$500,000,000 of that amount in New York City. In view of the increased volume of purchases that were being made for this purpose, the members of the full Committee on December 9, 1942, approved an increase to \$3,000,000,000 in the authority of the executive committee to increase or decrease the amount of securities held in the System account.

Upon motion duly made and seconded, and by unanimous vote, the actions of the members of the Federal Open Market Committee as set forth above were approved, ratified, and confirmed.

Mr. Rouse then read a report of open market operations during the period from September 28 to December 9, 1942, inclusive. He made a supplementary report covering transactions conducted for the System account during the period from December 10 to December 12, 1942, inclusive. Copies of these reports have been placed in the files of the Federal Open Market Committee.

During the discussion of Mr. Rouse's reports, Chairman Eccles stated that, while the maintenance of existing prices of Government securities seemed desirable during a financing campaign, he questioned the advisability of continuing to maintain present prices of outstanding premium bonds. It was his opinion that after the current financing was

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over these issues should be allowed to decline to a point where they found their own level in the market and would not be overpriced in relation to the more recent issues of 2 and 2-1/2 per cent bonds.

During Chairman Eccles' statement, Mr. Dreibelbis, Assistant General Counsel of the Committee, joined the meeting.

Mr. McKee referred to the difficulty experienced by the Federal Reserve Bank of New York during the recent period in purchasing sufficient amounts of Government securities, other than longer-term premium bonds, to supply needed funds to the market in connection with the Treasury financing operations without disturbing the existing pattern of rates. There was general agreement with his suggestion that, if in connection with future financing campaigns the needed reserve funds were to be supplied through open market operations alone, it would be necessary for the Treasury to issue very substantial additional amounts of bills and certificates. In this connection, the statement was made that the Treasury had approved an increase to \$600,000,000 in this week's issue of Treasury bills.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from September 28 to December 12, 1942, inclusive, were approved, ratified, and confirmed.

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 September 28, 1942, were approved, ratified, and confirmed.

Mr. Rouse stated that under date of November 25, 1942, he received from Under Secretary of the Treasury Bell a letter requesting

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that the New York Bank furnish to the Treasury, for its use in connection with its studies of Federal Reserve operations in Government securities and its survey of ownership of securities issued or guaranteed by the United States, (1) a daily list of transactions in Government securities during the 24 hours ended at 4:00 o'clock each afternoon, including bills purchased under repurchase agreements and held in the accounts of the individual Reserve Banks, (2) a reconciliation of the figures shown in the daily lists with the change in total Federal Reserve Bank holdings from Wednesday of one week to Wednesday of the next week, and (3) a list of holdings of all 12 Federal Reserve Banks as of the last day of each month showing each direct and guaranteed issue separately, except that Treasury bills should be lumped together, the latter amount to include bills held by the individual Federal Reserve Banks under repurchase options. Mr. Rouse said that it seemed entirely proper to him to send to the Treasury the list referred to in item (3) above, as is now done by other large holders of Government securities, with the understanding, however, that the Treasury would recognize the confidential nature of the data and the importance of withholding them from publication in a form which would permit identification of individual securities as holdings of the Federal Reserve System. The information requested in items (1) and (2) above, Mr. Rouse said, was being furnished the Treasury, with the approval of the Federal Open Market Committee, by telephone and in copies of the daily letter and weekly report sent by the New York Bank to the members of the executive committee of the Federal Open Market Committee and certain members of the Committee's staff, so that the

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members of the Treasury staff to whom the information was submitted were receiving all of the information with respect to operations in the System account that was received by the members of the Federal Open Market Committee. Mr. Rouse felt that in these circumstances, and in view of the extreme difficulty that the New York Bank was experiencing in finding trained men, the Bank should be relieved of the necessity of preparing any more reports than were absolutely necessary, and he said he would like to be authorized by the Committee to inform Mr. Bell that, because of the existing situation, he would prefer not to submit the first two reports requested.

After a discussion of Mr. Rouse's suggestion, it was agreed unanimously that he should discuss the matter informally with Mr. Bell, stating that it had been taken up with the Federal Open Market Committee, that while the Committee was glad to authorize the furnishing to the Treasury of a list of security holdings of the 12 Federal Reserve Banks as of the last day of each month, provided the confidential nature of the information was recognized as suggested by Mr. Rouse, the other two reports requested would require a considerable amount of work to prepare at a time when the New York Bank was already short of trained personnel, and that, inasmuch as the Treasury was now receiving all of the information with respect to transactions in the System account that was being sent to the members of the executive committee of the Federal Open Market Committee and its staff, from which the Treasury should be able to make such computations as it might desire, the Committee would appreciate it if the necessity for preparing the two reports in question could be avoided. It was understood that Mr. Rouse would confirm his understanding with Mr. Bell by letter, a copy of which would be sent to Mr. Morrill for the records of the Federal Open Market Committee.

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Chairman Eccles then reviewed briefly the informal discussions with representatives of the Treasury since the last meeting of the Federal Open Market Committee relating to Treasury financing operations, particularly with respect to the open market operations conducted for the System account in connection with the October financing and the major financing campaign being conducted at the present time. He reported that during a conference at the Treasury on November 11, 1942, which was attended by Messrs. Alfred H. Williams and C. S. Young and himself, Secretary Morgenthau stated that before he announced the December financing campaign he wanted to have the assurance of the System that, if at any time during the campaign he should feel that additional reserves should be supplied and should request the System to furnish an additional amount of excess reserves, such action would be taken. Chairman Eccles also said that, without speaking for the Board or the Federal Open Market Committee, he and Messrs. Williams and Young had agreed that, if the Treasury felt it could not finance the war successfully without larger excess reserves than were provided by the System and a request were made by the Secretary that additional reserves be provided, the System should comply with that request. Following the meeting at the Treasury, Chairman Eccles said, the matter was taken up with the Board, and Secretary Morgenthau was advised informally that so far as the members of the Board were concerned they would assure him that, if at any time during the financing, after representatives of the System had had an opportunity to present reasons for the policy being followed, he felt that additional reserves should be supplied, the

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System, upon receipt of a request from the Secretary, would put additional reserves into the market in the amount requested.

In connection with Chairman Eccles' statement, there was a discussion of the informal understanding with the Secretary of the Treasury that the System would endeavor to maintain a total of \$2,500,000,000 of excess reserves in the country as a whole and around \$500,000,000 in New York City banks. There was general agreement with the expressed opinion that under present circumstances it was not possible as a practical matter to maintain continuously a minimum of \$500,000,000 of excess reserves in the New York money market banks, for the reason that as the funds were supplied they were invested by the banks in short-term securities. This placed the System and the commercial banks in a competitive position in the market and resulted particularly in pressure on the discount rate for bills. It was agreed that an undertaking to maintain a specified amount of excess reserves was not entirely consistent with the policy of urging banks to keep fully invested and of maintaining a pattern of rates on outstanding issues of Government securities. In this connection, it was stated that the existing understanding relating to the maintenance of a stated amount of excess reserves would end at the close of the present financing drive.

Reference was made to the full-page advertisements which had been prepared by Doremus and Company at the request of the Treasury and placed in newspapers suggested by that Company at the beginning of the current financing campaign. It had been agreed that the cost of these advertisements would be paid by the Federal Reserve Banks, and Mr. Morrill

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stated that the Federal Reserve Bank of New York had paid the bills covering the cost of the advertisements. Mr. Sproul suggested in a letter dated December 10, with which he forwarded the paid bills for the advertising in the districts other than New York, that arrangements be made with the other Federal Reserve Banks to reimburse the New York Bank, and Mr. Morrill stated that this was being done.

The representative members of the Federal Open Market Committee stated that they had received a number of complaints from newspapers and radio stations with respect to the manner in which the advertising was handled, and Mr. Williams suggested that it would be helpful in avoiding that situation if similar advertisements placed in the future could be handled by the Federal Reserve Banks.

Messrs. Sproul and Eccles stated that the Treasury had felt that it was necessary to have some kind of newspaper advertising of the campaign, that it had been arranged hurriedly with a realization that it might be the cause of some criticism, and that a better arrangement would be worked out prior to another major financing operation. Chairman Eccles also stated that it had been estimated that, with the contemplated increase in the weekly offering of Treasury bills to \$600,000,000 beginning with the issue of December 16 and to \$700,000,000 in January and with the increase of the February 1, 1943, issue of certificates to \$2,500,000,000, it might be possible to defer further major financing operations until April, and that during the intervening period an opportunity would be afforded on the basis of experience to work out a procedure which would avoid many of the difficulties encountered in the current campaign.

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In this connection, Chairman Eccles suggested that it would be advisable to hold another meeting of the full Committee in January of next year which would be attended by the Presidents of all the Federal Reserve Banks, with the understanding that while the Presidents were here they would meet as the Chairmen of the Victory Fund Committees for a review of their experience in the current financing operation and with representatives of the Treasury for the purpose of discussing plans for future campaigns. The first three days of either the week of January 18 or the week of January 25 were suggested as possible dates for the meetings. Messrs. Ransom and Evans stated that they had made other arrangements for the week of January 18.

It was understood that Mr. Morrill would ascertain from Mr. Szymczak (who was absent from this meeting because of the death of a sister) and the Presidents of the other Federal Reserve Banks whether January 25 would be agreeable to them and, if so, that the meetings would be called to begin on that date.

Chairman Eccles stated that during the preparation for the present financing campaign it became evident that the problem would be considerably simplified if there could be a substantial increase in the number of war loan deposit accounts maintained by banks throughout the country. He said that telegrams were sent to the Presidents of the Federal Reserve Banks calling their attention to the matter, that the Presidents undertook to encourage the opening of such accounts by banks in their districts, but that a number of banks objected to taking such action for the reason that they did not want to pay the Federal Deposit

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Insurance Corporation assessment on deposits of Government funds held in the accounts and some banks objected to maintaining reserves against such deposits. He went on to say that when this information came to the Board the matter was taken up with the Treasury and the Federal Deposit Insurance Corporation, and that it was agreed that a draft of bill should be prepared which, for the duration of the war and six months thereafter, would relieve insured banks of the necessity of paying Federal Deposit Insurance Corporation assessments on war loan deposits and member banks of the necessity of maintaining reserves against such deposits. When the bill was prepared, Chairman Eccles said, he, Mr. McKee, and Mr. Crowley, Chairman of the Federal Deposit Insurance Corporation, discussed it with Mr. Steagall, Chairman of the House Banking and Currency Committee, and Senator Prentiss Brown, a member of the Senate Banking and Currency Committee, and, while they were both favorable to the legislation and were of the opinion that, if it were presented after the turn of the year when the new Congress convened, it could be enacted without a great deal of difficulty, they felt it would be impossible to obtain its enactment at this time because of the general legislative situation and the desire of members of Congress to bring about an early adjournment.

Mr. Goldenweiser was then called upon for a statement as Economist for the Federal Open Market Committee. After reviewing briefly the situation with respect to production and prices in connection with the war effort and the funds that would be needed to finance the war, he discussed the possibilities of inflation inherent in the increasing

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amounts of funds which would be supplied by bank purchases of Government securities as compared with what the situation would be if funds were used by the public for the purpose of purchasing Government securities instead of bidding up prices of the reduced volume of available consumers' goods. He also made certain suggestions with respect to changes that might be made in fiscal and Treasury financing policies and with respect to the policies to be followed by the Federal Reserve System in connection with war financing. A copy of Mr. Goldenweiser's statement has been placed in the files of the Federal Open Market Committee.

Following Mr. Goldenweiser's statement, the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the close of the morning session except that Mr. Dreibelbis was not present.

Mr. John H. Williams was called upon for a statement as Associate Economist for the Committee and, after commenting upon the expansion that had taken place in production and the effectiveness of direct controls to prevent inflation, he discussed the relative importance of fiscal and monetary policies and selective or direct credit controls and made suggestions as to the means by which the System's monetary policies might be implemented. A copy of Mr. Williams' statement has also been placed in the files of the Federal Open Market Committee.

While Mr. Williams was making his statement, Mr. Dreibelbis, Assistant General Counsel of the Committee, rejoined the meeting. After the statement, Mr. Berntson withdrew.

During the course of a discussion of the effectiveness of available controls in preventing inflation, there was general agreement on

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the part of the members of the Committee that the System alone could not do more in the field of monetary and credit policy than to keep abreast of developments, to exert its influence wherever possible, and to adapt its policies to the needs of the war program. It was agreed that the members of the executive committee should continue the procedure that had been followed in the past of making suggestions to the Treasury with respect to fiscal and financing policies with a view to bringing about the adoption of such changes in these policies from time to time as might result in financing the war effort in the most effective way with the least possible adverse effect on the war and post-war economy, and that this should be one of the matters for discussion at the meetings to be held next month.

In connection with a discussion of whether any change should be made in the existing arrangement under which Federal Reserve Banks purchase all Government bills offered to them on a discount basis at a rate of $3/8$ per cent per annum, there was agreement with the suggestion that consideration should be deferred until the meeting in January of the questions (1) whether bills should be made available by the Treasury up to a stated amount to any one purchaser at a flat rate of discount and (2) whether, instead of purchasing bills in the market to replace maturing bills held in the System account, an arrangement should be made with the Treasury for direct replacement of such bills.

At the conclusion of the discussion, there was unanimous agreement that no change should be made in the direction issued to the Federal Reserve Banks at the meeting of the

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Federal Open Market Committee on September 28, 1942, to purchase all bills offered at the posted rate of $3/8$ per cent.

In connection with the above action, Mr. McKee stated that he questioned the advisability of permitting the Federal Reserve Banks to hold in their individual accounts instead of the System open market account the bills purchased under repurchase options, and that he would like to review the record of the action of the Committee on this question and to reserve the right to bring the matter up for discussion at a later meeting of the Committee.

Reference was then made to the authority to be granted to the executive committee to direct the execution of transactions for the System open market account pending another meeting of the full Committee. There was a discussion of the question as to the amount of securities that it might be necessary to purchase during that period to offset any increase that might occur in currency in circulation, to provide reserves for deposits resulting from bank purchases of Treasury certificates and increased offerings of bills, and to maintain the agreed pattern of rates on Government securities. In this connection, mention was made of the arrangement that had been made under which the Federal Reserve Banks would place in circulation their existing stocks of Federal Reserve Bank notes, amounting to approximately \$660,000,000, which would add that amount to member bank reserves. All of the members of the Committee were in agreement that the renewal of the authority granted at the last meeting of the Federal Open Market Committee would be ample to meet the situation pending the next meeting of the Committee, with the understanding,

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however, that separate authority should be given to purchase short-term certificates of indebtedness for the temporary accommodation of the Treasury and that, in the event of a contingency requiring authority for additional purchases of Government securities, such authority could be granted upon the telephonic, telegraphic, or written approval of a majority of the members of the Federal Open Market Committee.

Thereupon, 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; 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 April 30, August 3, and September 28, 1942) shall not be increased or decreased by more than \$1,000,000,000.

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 \$1,000,000,000.

Reference was made to certain suggestions that might be made to the Treasury in connection with future financing operations, and there was unanimous agreement that Mr. Morrill should send to the Presidents of the Federal Reserve Banks who were

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not members of the Federal Open Market Committee, for their information pending the discussion of Treasury financing at the meetings to be held in January, copies of (1) the memorandum prepared by Mr. Sproul setting forth his views on credit policy and Treasury financing which he sent to the members of the Federal Open Market Committee under date of December 10, 1942, and (2) Mr. Goldenweiser's memorandum entitled "Treasury Financing and the Banks: 1943 and 1944". It was also understood that Chairman Eccles would send a copy of Mr. Sproul's memorandum to the Secretary of the Treasury with the statement that if he had any comments to make with respect to the questions presented therein the members of the Federal Open Market Committee would be pleased to have them.

Thereupon the meeting adjourned.

Robert M. Hoover
Secretary.

Approved:

W. C. Eccles
Chairman.