

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 Saturday, May 15, 1943, at 3:45 p.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Ransom  
Mr. Draper  
Mr. Evans  
Mr. Paddock  
Mr. Fleming  
Mr. McLarin  
Mr. Day

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary  
Mr. Goldenweiser, Economist  
Messrs. John H. Williams, MacKenzie, and  
Bryan, Associate Economists  
Mr. Wyatt, General Counsel  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Rouse, Manager of the System Open  
Market Account  
Messrs. Piser and Kennedy, Chief and Assistant  
Chief, respectively, of the Government  
Securities Section, Division of Research  
and Statistics, Board of Governors

Messrs. Leach, Young, and Payton, alternate  
members of the Federal Open Market Committee

Messrs. Alfred H. Williams, Leedy, and Gilbert,  
Presidents of the Federal Reserve Banks of  
Philadelphia, Kansas City, and Dallas, re-  
spectively

Mr. Hitt, First Vice President of the Federal  
Reserve Bank of St. Louis

Messrs. Sienkiewicz and Edmiston, Vice Presidents  
of the Federal Reserve Banks of Philadelphia  
and St. Louis, respectively

Upon motion duly made and seconded, and  
by unanimous vote, the minutes of the meeting  
of the Federal Open Market Committee held on  
March 2, 1943, were approved.

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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 March 2, 1943, were approved, ratified, and confirmed.

Copies of a report prepared at the Federal Reserve Bank of New York covering open market operations conducted for the System account during the period from March 3 to May 12, 1943, both dates inclusive, were distributed by Mr. Rouse during the meeting, and he reported orally the transactions which had been effected for the System account on May 13, 14, and 15. A copy of Mr. Rouse's written report has been placed in the files of the Federal Open Market Committee, and the transactions reported by him orally are shown in the daily reports by the Federal Reserve Bank to the members of the executive committee and will be covered in detail in the report covering the weekly period ending May 19, 1943, which will be sent to all members of the Committee.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from March 2 to May 15, 1943, both dates inclusive, were approved, ratified, and confirmed.

In connection with his report, Mr. Rouse referred to the action taken at the meeting of the Federal Open Market Committee on June 21, 1939, with respect to the distribution of the weekly report of open market operations prepared at the Federal Reserve Bank of New York, and stated that question had arisen whether the report should be sent to all of the Associate Economists of the Committee.

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Mr. Leedy suggested that it would be helpful if the report could be sent to the officer in charge of the research department at each Federal Reserve Bank regardless of whether the President of the Bank was serving as a member of the Federal Open Market Committee. It was the consensus of the members of the Committee, however, that, inasmuch as the Presidents of the Federal Reserve Banks who were not members of the Open Market Committee received copies of the weekly report, it would be a better procedure if they would make their copies of the report available in each case to the officer in charge of the Bank's division of research and statistics.

Upon motion duly made and seconded, the distribution of the weekly report to the following was approved unanimously:

1. The members of the Board of Governors;
2. The Presidents of the 12 Federal Reserve Banks;
3. The Secretary, the Economist, and the Associate Economists of the Federal Open Market Committee;
4. The Secretary of the Treasury;
5. The Under Secretary of the Treasury;
6. The Chief of the Division of Bank Operations of the Board of Governors; and
7. Mr. Rounds, alternate member of the Federal Open Market Committee; the Assistant Vice President of the Federal Reserve Bank of New York working under the Manager of the System Account; the Manager of the Securities Department of the New York Bank; the Manager of the Research Department of the New York Bank; and the confidential files of the New York Bank as agent for the Federal Open Market Committee.

At this point Mr. Young withdrew from the meeting.

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Mr. Rouse also stated that it would be very helpful from an accounting and operating standpoint if the Federal Reserve Banks could be instructed to hold in their own accounts all bills purchased under the direction issued by the Federal Open Market Committee at the meeting on March 2, 1943, rather than only bills which were purchased subject to a right in the seller to repurchase before maturity of the bills.

Mr. McKee indicated that he would be opposed to such an extension of the separate investment accounts of the individual Federal Reserve Banks, but suggested that this problem could be met effectively by making all bills purchased by the Federal Reserve Banks subject to the right of repurchase in the seller whether he requested it or not.

This suggestion was discussed and, upon motion duly made and seconded, it was agreed unanimously that without changing the direction issued at the meeting of the Federal Open Market Committee on March 2, 1943, with respect to the purchase by the Federal Reserve Banks of Treasury bills, it would be understood that the Reserve Banks would treat all purchases pursuant to this direction as being subject to the condition that, upon request of the seller before the maturity of the bills, the Reserve Bank would sell to him Treasury bills of like amount and maturity at the discount rate of  $3/8$  per cent per annum and that no public announcement of this understanding would be made but that the seller would be informed when the purchase was made by the Reserve Bank.

Mr. Rouse then referred to the increased use by some of the Federal Reserve Banks of their participations in the System open market account as collateral for Federal Reserve notes and stated that, in order to devise a procedure which would avoid the burdensome accounting that was required under the present arrangement, it was suggested that the matter be considered

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by a special committee composed of representatives of the staff of the Board of Governors and the Federal Open Market Committee, with the understanding that the recommendation of the special committee would be acted upon by the executive committee with a full report to the Federal Open Market Committee of the procedure adopted. He added that, in view of the strong likelihood that there would be a greater use in the near future of Government securities in the System account as collateral for Federal Reserve notes and because of the present manpower shortage, it would be helpful if a decision on this matter could be reached as promptly as possible.

Upon motion duly made and seconded, and by unanimous vote, it was agreed that Mr. Szymczak, as a representative of the Board of Governors, should discuss the matter with members of the staff of the Board and of the Federal Open Market Committee, and that a recommendation as to the procedure to be followed should be submitted to the Board of Governors, the Presidents, and the Federal Open Market Committee.

Mr. Goldenweiser, as chairman of the committee appointed in accordance with the action taken at the meeting of the Federal Open Market Committee on January 26, 1943, to make a study of the significant aspects of the relationship of the Government security dealers to the Government security market, stated that a revised report prepared under date of April 6, 1943, was available for distribution to the members of the Federal Open Market Committee and for consideration at the pleasure of the Committee.

There was unanimous agreement that copies of the revised report should be sent to the members of the Federal Open Market Committee,

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the remaining Presidents of the Federal Reserve Banks, and the members of the staff of the Federal Open Market Committee, and that the report should be placed on the agenda for the next meeting of the full Committee.

At this point Messrs. Peyton, Leedy, and Gilbert withdrew from the meeting.

Chairman Eccles stated that the existing situation suggested the desirability of another meeting of the Federal Open Market Committee during the latter part of June, and that the authority to be granted to the executive committee to direct the execution of transactions for the System open market account should be determined in the light of that situation.

Thereupon, upon motion duly made and seconded, the following direction was approved 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 September 28, 1942, and March 2, 1943) 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

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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 \$1,500,000,000.

Thereupon the meeting adjourned.

Orestes Morrie  
Secretary.

Approved:

W. S. ...  
Chairman.