

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 28, 1943, at 9:20 a.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, Bryan,
and Wheeler, Associate Economists
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Clayton, Assistant to the Chairman of
the Board of Governors
Messrs. Piser and Kennedy, Chief and As-
sistant Chief, respectively, of the
Government Securities Section, Division
of Research and Statistics of the Board
of Governors
Mr. Miller, Assistant Vice President of
the Federal Reserve Bank of New York
(in the absence of Mr. Rouse, Manager
of the System Account, who had remained
in New York in connection with the
Treasury financing that had just been
announced)
Mr. Berntson, Clerk in the Office of the
Secretary of the Board of Governors

Messrs. Leach, Young, and Peyton, 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

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Messrs. Hitt and Powell, First Vice Presidents of the Federal Reserve Banks of St. Louis and Minneapolis, respectively

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

Mr. Dolley, Economic Adviser of the Federal Reserve Bank of Dallas

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on May 15, 1943, 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 15, 1943, were approved, ratified, and confirmed.

During the meeting there were distributed copies of a report prepared by the Federal Reserve Bank of New York of open market operations conducted for the System account during the period May 17 to June 23, 1943, inclusive, and Mr. Miller discussed the principal features of the report. He also submitted a supplemental report of operations in the account for the period June 24 to June 26, inclusive, and copies of both reports have been placed in the files of the Federal Open Market Committee.

During the course of Mr. Miller's report, there was a discussion of the effect on the market of the financing just announced by

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the Treasury, the possible effects of present market trends on the established pattern of rates on Government securities, and the problems that might be created for the System by the continued increase in the proportion of shorter maturities of securities held in the account through the purchase of Treasury bills and the sale of notes and bonds.

At the conclusion of the discussion, upon motion duly made and seconded and by unanimous vote, the transactions in the System account during the period May 17 to June 26, 1943, inclusive, were approved, ratified, and confirmed.

At this point Mr. Thurston, Special Assistant to the Chairman of the Board of Governors, and Mr. Smead, Chief of the Division of Bank Operations of the Board of Governors, joined the meeting.

Mr. Szymczak stated that in accordance with the action taken at the meeting of the Federal Open Market Committee on May 15, 1943, consideration had been given by members of the staff of the Board of Governors, the Federal Open Market Committee, and the Federal Reserve Bank of New York to simplification of the procedure under which the participations of the Federal Reserve Banks in the System account could be pledged as collateral for Federal Reserve notes, that while the essentials of a suggested procedure had been agreed upon the final draft of a statement was not complete, and that it was suggested, therefore, that Mr. Wyatt be requested to outline the proposed procedure after which, if agreeable to the members of the Federal Open Market Committee, the plan could be approved in principle with the understanding

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that it would be submitted in final form for approval by the Board of Governors, the Federal Reserve Banks, and the Federal Reserve Agents before being placed in operation.

Mr. Wyatt stated that the present procedure involves the segregation of specific securities in the System account when they are pledged by a Federal Reserve Bank as collateral for its Federal Reserve notes, and that this requires a great amount of detailed work which can be eliminated by permitting each Bank to pledge a portion of its undivided interest in the System account without any segregation of the securities. He said that this involved no new principle, since it was substantially what was done when a Bank's undivided interest in the Agents' Gold Certificate Fund was pledged as collateral for Federal Reserve notes. Therefore, he was of the opinion that the plan would constitute at least a substantial compliance with the law.

Mr. Wyatt summarized the operation of the proposed plan as follows: All of the securities in the System account would be held in the joint custody of the Federal Reserve Bank of New York and the Federal Reserve Agent at New York. Each Bank desiring to pledge a portion of its participation in the System account would deliver to the Federal Reserve Agent at such Bank an appropriate document evidencing such pledge and would notify the Federal Reserve Bank of New York and the Federal Reserve Agent at New York that a specified dollar amount of its participation in the System account had been pledged as

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collateral for Federal Reserve notes. Changes in the amount of securities pledged would be effected by a similar procedure. It was contemplated that, in so far as practicable, each Bank would keep at least 5 per cent of its participation in the System account unpledged to facilitate sales from the account, and that, if it should become necessary to sell more than the unpledged portion of any Bank's participation in the account, an appropriate adjustment would be made in a manner provided for in the plan.

After a discussion of various points in the proposed procedure, upon motion duly made and seconded and by unanimous vote, the procedure was approved in principle, with the understanding that, after such refinements as were found to be necessary were made by the staff, it would become effective when it had been approved by the Federal Reserve Banks, the Federal Reserve Agents, and the Board of Governors.

Messrs. Clayton and Smead withdrew from the meeting at this point.

In accordance with a suggestion by Mr. Goldenweiser as to the order of presentation, statements were made by Messrs. Bryan, John H. Williams, and Goldenweiser in that order. Mr. Bryan discussed the impact of the April war loan drive on interior banks. Messrs. Williams and Goldenweiser discussed the plans that had been advanced, and questions that had been raised in connection with such plans, for postwar international monetary stabilization. Transcripts of these statements have been placed in the files of the Federal Open Market Committee.

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While Mr. Bryan's statement was being made, Mr. Gardner, Senior Economist in the Division of Research and Statistics of the Board of Governors, joined the meeting.

During a discussion of questions in connection with the monetary stabilization plans and in response to a question by Mr. Alfred H. Williams, Mr. Goldenweiser explained that participation by members of the Board's staff in discussions with staff members of the Treasury Department and other agencies of this Government, and later with the technical staff experts of allied and associated nations, had been at the request of the Treasury.

Mr. Gardner stated that the Treasury plan was being redrafted on the basis of the discussions that had taken place, that the revised draft was nearing final form so far as the technical level was concerned, and that it was possible that it would be submitted within a week or 10 days for consideration of the interested departments and agencies of the Government with the thought that a conference of finance ministers of the allied countries might be called for sometime this fall, after which any plan agreed upon would be submitted to the Congress of the United States for approval.

It was also stated in this connection by Chairman Eccles and Mr. Ransom that the Board as such had not yet been asked for its views but that it had been made clear that the Board would be entirely free to express whatever views it might desire at such time as it might be

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appropriate for it to do so.

Chairman Eccles referred briefly to the possible effects that any plan for international monetary stabilization might have on the ability of the System to control the domestic credit situation, and stated that he had taken the position that the System should be given whatever powers were necessary to enable it effectively to offset any influences that the operation of the plan might have on the internal credit situation in the United States.

Reference was also made to the fact that no monetary stabilization plan could be successful in the absence of a broad program of postwar adjustment of the more fundamental conditions upon which such a plan would depend, and that there was danger that the importance of this point would be overlooked because of the wide attention being given to the monetary stabilization plans at this time without adequate discussion of the more basic problems.

Thereupon the meeting recessed and reconvened at 2:15 p.m. with the same attendance as at the end of the morning session except that Messrs. Edmiston, Gardner, and Berntson were not present and Mr. Clayton and Mr. Upgren, Vice President of the Federal Reserve Bank of Minneapolis, were in attendance.

Reference was made to the revised report dated April 6, 1943, submitted by the committee appointed in accordance with the action taken at the meeting of the Federal Open Market Committee on January

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26, 1943, to make a study of the significant aspects of the relationship of the Government security dealers to the Government security market. Chairman Eccles stated that the report did not appear to him to cover adequately certain aspects of the problem and that at his request a memorandum had been prepared under date of June 26, 1943, by Messrs. Piser and Kennedy which presented certain questions in relation to the regulation of the Government security market that he would like to have considered. The committee report and the memorandum of June 26 were read, and Chairman Eccles amplified his views with respect to the points covered by the memorandum. He also said that developments in the future might make the regulation of the activities of the dealers under a voluntary arrangement much more difficult than in the past, particularly if, as had been suggested, the number of dealers increased materially. In these circumstances, he felt that the Federal Open Market Committee should develop with the Manager of the System Account something in the nature of regulations which would govern the relationship with the dealers in somewhat the same manner as would be done under a statutory requirement, and that, while there was no criticism of the relationship of the Manager of the account with dealers in the past, it was believed that that relationship should not be left to be determined solely by the Manager of the account but should be carried on under at least a broad outline that would be determined by the Federal Open Market Committee. He thought that the matter had reached a point

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where a committee of the Federal Open Market Committee should meet with the Manager of the account for the purpose of working out a program that would be approved by the Committee, and that if the dealers were unwilling to accept regulation of this kind the Federal Open Market Committee should undertake to get the necessary statutory authority to handle the situation. He would not eliminate the Government security dealers but suggested that consideration be given to changing the situation along the lines that he had discussed.

Mr. McKee felt that the principal cause for complaint against the dealers was their failure to control the advice given by their field offices and representatives to small banks, and that unless they were regulated or were willing to regulate themselves in this particular he was at a loss to know how the small banks throughout the country could be expected to carry out sound investment programs.

Mr. Sproul expressed himself as being increasingly in accord with the report submitted by the special committee, and in that connection observed that such a report would necessarily represent a conciliation of different points of view. He stated that, while he recognized some of the difficulties referred to in the memorandum of June 26 mentioned above, he questioned the desirability and effectiveness of an attempt more formally to regulate dealers' activities. In connection with the possibilities of large profits to dealers growing out of transactions of the System account, he was of the opinion that these profits

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were not large either actually or in relation to the value of the services rendered. He said that the principal question raised by the statement in the memorandum of June 26 was whether the System needed to have more control over the activities not only of Government security dealers but of all other elements in the Government security market, which would mean that the System would have to control activities of practically everyone dealing in Government securities. He added that he would want to consider carefully any further regulation of the market for the reason that it might create a more difficult situation than the one existing at the present time.

Mr. Alfred H. Williams inquired whether the situation might be met by making available to the members of the Federal Open Market Committee copies of stenographic transcripts of the conferences of the Manager of the System Account with dealers' representatives. Mr. Sproul replied that, while he was in agreement that the members of the Committee should have full reports, he was of the opinion that the introduction of a stenographer in these conferences would tend to restrain effective exchange of information between the dealers and the Manager of the System Account. He also said that if there should be further regulation of the dealers he thought it would be preferable from the standpoint of the System to have statutory regulation, instead of more formal administrative regulation, in place of the voluntary arrangement existing at the present time.

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Chairman Eccles suggested that between now and the next meeting of the full Committee the executive committee meet with the Manager of the System Account and review the instructions that had been given to the dealers and be prepared to submit at the next meeting of the full Committee recommendations in connection with the question whether the relationship with the dealers should be formalized somewhat further than at present.

Mr. Sproul made the statement that so long as policy is determined in Washington in general terms to be carried out in New York there will be differences as to whether the full intent of the policy and its execution are in complete conformity, for the reason that no two people retain exactly the same understanding of such a policy decision and the means of its execution, and that unless that fact were clearly understood and allowed for no such arrangement could work out with entire satisfaction to every one.

At the conclusion of the discussion, it was understood that the Federal Reserve Bank of New York would prepare a full statement of the present relationship with the dealers, that this statement would be sent to and reviewed by the members of the executive committee, and that the executive committee would make a report for consideration at the next meeting of the Committee.

Mr. Gilbert inquired as to the attitude of the Treasury toward direct replacement of maturing securities held in the System account,

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and Chairman Eccles stated that there had been no objection on the part of the Treasury to direct replacement of maturing longer-term issues but that it had expressed no opinion on the direct replacement of Treasury bills.

Mr. Sproul repeated his former objection to the direct purchase of securities from the Treasury, stating that so long as the people retain confidence in the Government's credit the financing of the war is relatively simple, and that to jeopardize that confidence is too great a risk to take to achieve a measure of improvement in the mechanical handling of our Government security transactions.

Mr. Miller also questioned the desirability of direct replacement of bills for the reason that the dealers made little or no profit on the transaction when they bid for bills and sold to the System account the bills which they were unable to place in the market, and stated that if replacements were taken directly from the Treasury the dealers might lose some of their interest in bills and materially reduce or discontinue their efforts to effect a broad distribution.

In connection with the discussion of the instructions to be issued to the Federal Reserve Banks with respect to the purchase of Treasury bills and to the New York Bank in connection with the execution of transactions for the System account, Chairman Eccles referred to the difficulty being experienced at the present time in maintaining the pattern of rates which was agreed upon when the proportion of

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short-term securities in relation to total Government securities outstanding was much smaller than at present. He suggested that when the present program of increasing the weekly bill offering to \$1,000,000,000 was completed the amount of the weekly offering should not be increased further and that it might be desirable to issue a security with a nine months' maturity and a $3/4$ per cent rate which the System would stand ready to purchase under a repurchase option as is now done with bills, which would make it unnecessary for the System to undertake to maintain a pattern of rates on maturities of less than nine months.

Mr. Sproul felt that such an arrangement might create more of a problem than existed at the present time, and he doubted the wisdom of undertaking to guarantee a $3/4$ per cent rate on what in effect would be a one-day bill. He was of the opinion that such an arrangement would not solve the problem of "playing the pattern of rates" as that was already moving into notes and bonds where the profits were larger, and that the change proposed by Chairman Eccles would encourage that tendency.

There was some discussion of Chairman Eccles' suggestion, following which he reviewed the discussions which members of the executive committee had had with the Treasury, and the recommendations which they had made to the Treasury, in connection with the financing which had just been announced. There was also a discussion of the procedure followed by the Treasury in this instance of conferring with members of

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the executive committee and talking on the telephone with several of the Presidents, and there was agreement on the part of those present that it would be helpful if a procedure could be developed by which the Presidents would have an opportunity to learn of the recommendations of the members of the executive committee before the Presidents' individual conversations with the Treasury took place.

All of the members of the Federal Open Market Committee were in agreement with the suggestion that the direction with respect to the purchase of bills issued to the Federal Reserve Banks at the meeting of the Federal Open Market Committee on March 2, 1943, should be changed to conform to the understanding reached at the meeting on May 15, 1943, that the Federal Reserve Banks would treat all purchases made pursuant to the 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 amounts and maturities at the discount rate of $3/8$ per cent per annum.

Thereupon, upon motion duly made and seconded, the following direction was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the option holder:

Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of $3/8$ per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller

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before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all such purchases are to be made to the Manager of the System open market account.

There was also agreement that in the absence of some unforeseen development it would not be necessary to hold another meeting of the Federal Open Market Committee before a date in the early part of September, which it was suggested might be the 6th or 7th of that month, and that in order that the executive committee might have sufficient authority during that interval the limitation on the authority to increase or decrease the amount of securities held in the account should be increased.

Thereupon, upon motion duly made and seconded, the following direction was approved by unanimous vote, with the understanding that the limitations contained in the direction were understood to include commitments for purchases or sales of securities for the System account:

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

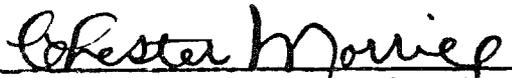
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the account at the close of this date (other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury and Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of March 2 and June 28, 1943) shall not be increased or decreased by more than \$1,500,000,000.

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 \$1,500,000,000.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.