

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 Wednesday, March 1, 1944, at 10:10 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Sproul, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Ransom  
Mr. Draper  
Mr. Evans  
Mr. Leach  
Mr. Young  
Mr. Davis  
Mr. Peyton

Mr. Morrill, Secretary  
Mr. Carpenter, Assistant Secretary,  
Mr. Goldenweiser, Economist  
Messrs. MacKenzie, Bryan, and Wheeler,  
Associate Economists  
Mr. Wyatt, 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  
of the Board of Governors

Messrs. Alfred H. Williams, Fleming, Leedy,  
and Gilbert, alternate members of the  
Federal Open Market Committee

Messrs. Paddock and McLarin, Presidents of  
the Federal Reserve Banks of Boston and  
Atlanta, respectively

Mr. Clerk, First Vice President of the  
Federal Reserve Bank of San Francisco

Messrs. Sienkiewicz, Langum, Edmiston,  
Ungren, and Hardy, Vice Presidents  
of the Federal Reserve Banks of  
Philadelphia, Chicago, St. Louis,  
Minneapolis, and Kansas City, re-  
spectively

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Mr. Kincaid, Consulting Economist at the  
Federal Reserve Bank of Richmond

Mr. Dolley, Economic Adviser at the Fed-  
eral Reserve Bank of Dallas

Mr. Morrill stated that advices of the election for a period of one year commencing March 1, 1944, of members and alternate members of the Federal Open Market Committee representing the Federal Reserve Banks had been received, that each newly elected member and alternate member had executed the required oath of office, and that it was the opinion of the Committee's Counsel on the basis of the advices received that the following members and alternate members were legally qualified to serve:

Allan Sproul, President of the Federal Reserve Bank of New York, with L. R. Rounds, First Vice President of the Federal Reserve Bank of New York, as alternate member;

Hugh Leach, President of the Federal Reserve Bank of Richmond, with Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, as alternate member;

C. S. Young, President of the Federal Reserve Bank of Chicago, with M. J. Fleming, President of the Federal Reserve Bank of Cleveland, as alternate member;

Chester C. Davis, President of the Federal Reserve Bank of St. Louis, with R. R. Gilbert, President of the Federal Reserve Bank of Dallas, as alternate member; and

John N. Peyton, President of the Federal Reserve Bank of Minneapolis, with H. G. Leedy, President of the Federal Reserve Bank of Kansas City, as alternate member.

Upon motions duly made and seconded, and by unanimous votes, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after March 1, 1945:

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Marriner S. Eccles, Chairman  
Allan Sproul, Vice Chairman  
S. R. Carpenter, Assistant Secretary  
E. A. Goldenweiser, Economist  
Messrs. John H. Williams, Kincaid,  
Langum, Edmiston, and Upgren,  
Associate Economists  
Walter Wyatt, General Counsel  
J. P. Dreibelbis, Assistant General  
Counsel

Upon motion duly made and seconded,  
and by unanimous vote, the Federal Reserve  
Bank of New York was selected to execute  
transactions for the System open market  
account until the adjournment of the first  
meeting of the Committee after March 1,  
1945.

Mr. Sproul stated that the board of directors of the Federal  
Reserve Bank of New York had selected Mr. Rouse as Manager of the Sys-  
tem open market account, subject to the selection of the Federal Reserve  
Bank of New York by the Federal Open Market Committee as the Bank to  
execute transactions for the System open market account and to his ap-  
proval by the Federal Open Market Committee.

Upon motion duly made and seconded,  
and by unanimous vote, the selection of  
Mr. Rouse as Manager of the System open  
market account was approved.

Upon motions duly made and seconded,  
and by unanimous votes, the following were  
selected to serve with the Chairman of the  
Federal Open Market Committee (who, under  
the provisions of the bylaws, is also chair-  
man of the executive committee) as members  
and alternate members of the executive com-  
mittee until the selection of their suc-  
cessors at the first meeting of the Federal  
Open Market Committee after March 1, 1945:

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Members

John K. McKee  
Ernest G. Draper  
Allan Sproul  
Hugh Leach

Alternate Members

M. S. Szymczak  
R. M. Evans  
Ronald Ransom  
(To serve in the order  
named as alternates for  
Messrs. Eccles, McKee,  
and Draper, except that  
in the absence of Chair-  
man Eccles Mr. Ransom  
will serve as the first  
alternate)

C. S. Young  
Chester C. Davis  
(To serve in the order  
named as alternates for  
Messrs. Sproul and Leach)

All of the members of the Committee were in agreement that there was no reason at this time for a change in the direction issued to the Federal Reserve Banks on June 28, 1943, with respect to the purchase of Treasury bills but that it would be desirable for the Committee to renew the direction.

Thereupon, upon motion duly made and seconded, the following direction was approved by unanimous vote, with the understanding that resales of Treasury bills held by the Reserve Banks 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  $\frac{3}{8}$  per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the

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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.

In taking this action, the Committee reaffirmed the position previously taken in discussions with representatives of the Treasury that the short-term rate on Government securities should be increased by the adoption of one of the alternative courses proposed by the System representatives in such discussions, and the executive committee was authorized whenever an opportunity afforded in future discussions with the Treasury to urge appropriate steps to increase the short-term rate to a point more in line with the existing rates on longer-term issues of Government securities.

Consideration was then given to the form of the direction to be issued to the executive committee with respect to transactions in the System account pending another meeting of the full Committee. It was agreed that it would be desirable to continue to exempt from the limitations of the direction bills purchased from dealers and that, inasmuch as the maturities of such bills were now approximately equal to the weekly purchases of bills for the account, the direction should also exempt from its limitations the redemption of maturing bills.

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

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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 (1) bills purchased outright in the market on a discount basis at the rate of  $3/8$  per cent per annum and bills redeemed at maturity and (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury) 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.

Mr. Sproul stated that question had been raised by the Federal Reserve Bank of San Francisco whether, in the event the Federal Open Market Committee should establish a higher posted rate on Treasury bills, the existing rate of  $3/8$  per cent per annum would continue to apply on bills outstanding at the time of the change in rate until the maturity of such bills. It was his suggestion that, inasmuch as it was understood in discussions with representatives of the Treasury that in case the posted rate were raised the present rate would continue to apply to existing bills until they were redeemed, the Committee

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take that position as a matter of record so that whenever inquiries were made at the Federal Reserve Banks the officers of the Banks would be at liberty to answer the inquiries accordingly.

Upon motion duly made and seconded, Mr. Sproull's suggestion was approved by unanimous vote with the understanding that, since the action was merely a statement for the record of an existing policy, no publicity would be given to it.

The statement relating to the relationships of the executive committee with the Treasury, which was read at the meeting of the Federal Open Market Committee yesterday, was read again as follows:

"It has been customary for a number of years for members of the executive committee, at the request of the Secretary or the Under Secretary of the Treasury, to confer informally with the Secretary and with members of the Treasury's staff on matters relating to Treasury financing policies and procedures. In these conferences the members of the executive committee from time to time have presented views and recommendations on behalf of the full Committee and at other times have presented their own views, either collectively or as individuals, but with the understanding in all cases that they were not meeting with the Treasury formally in their capacity of an executive committee. At times, however, the Secretary of the Treasury has referred to these conferences as conferences with the Federal Open Market Committee or with the executive committee, rather than as conferences with members of the executive committee in their individual capacities.

"The Federal Open Market Committee believes that it is desirable that a more definite understanding be reached as to the procedure to be followed in the future in such conferences. It would be preferable if the views and recommendations of the Open Market Committee and its executive committee, the Board of Governors, and the Federal Reserve Banks on important matters of financing policy

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"were presented only in conferences with the Secretary and the Under Secretary of the Treasury by the Chairman and Vice Chairman of the executive committee. Such recommendations should be made in writing whenever practicable. It would also be preferable if such conferences could take place after consultations between staff members and by the Treasury with bankers and others.

"Therefore, the Federal Open Market Committee authorizes the executive committee to follow this procedure in the future in so far as it is practicable for it to do so."

Chairman Eccles stated that he would like to suggest that Mr. Morrill be requested to expand the statement into a form that could be presented to the Treasury as a statement of the instructions of the full Committee to be followed by the executive committee in its relations with the Treasury and that, after the statement was approved by the executive committee, he (Chairman Eccles) and Mr. Sproul be authorized to send or deliver it to Secretary Morgenthau.

Mr. Leach asked whether the adoption of the statement would preclude conversations with, and recommendations to, the Secretary or Under Secretary of the Treasury by the individual Presidents. Chairman Eccles replied that it would not be expected that the Presidents or the members of the Board of Governors would express opinions or make recommendations on matters of financing policy on which the Open Market Committee or its executive committee would be expected to make recommendations, but that the Presidents would be expected to continue to furnish the Treasury with information, whenever requested, as to the attitude of bankers and others in the respective Federal Reserve districts with respect to any matters having to do with Treasury financing.

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Messrs. Peyton and Davis expressed the opinion that it would be embarrassing if the Presidents were put in a position in which they would not be at liberty to answer inquiries received from the Secretary of the Treasury, but in the ensuing discussion there was general concurrence in the comment that, if the statement proposed by Chairman Eccles were adopted and the procedure outlined therein were understood and carried out by the Treasury, the Presidents and members of the Board of Governors would not be likely to receive inquiries from the Treasury on matters of policy on which the Federal Open Market Committee or the executive committee would be expected to speak for the System, and that, therefore, occasions in which the Presidents would not be free to answer inquiries received from the Treasury should not arise. It was agreed that there could be no objection to the Presidents ascertaining at the Treasury's request, the views of bankers and others in their respective districts on any questions relating to the financing program of the Treasury.

Mr. Davis stated that it would be most helpful to the Presidents who were not members of the executive committee if the committee would see to it that the Presidents were kept informed of discussions with the Treasury and of the conclusions reached by the executive committee with respect to Treasury financing and related matters.

At the conclusion of the discussion,  
upon motion duly made and seconded and by  
unanimous vote, the statement set forth

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above was approved in principle and the executive committee was requested to proceed in accordance with Chairman Eccles' suggestion.

Mr. Sproul stated that during its meeting on February 26-28, 1944, the Presidents' Conference discussed the use by the Treasury of the present formula for subscriptions by commercial banks holding savings deposits and that it was agreed that the formula used during the Fourth War Loan Drive was generally satisfactory and should be continued in subsequent drives, but that, in addition to savings deposits, the formula should include the amount of outstanding certificates of deposit issued to individuals inasmuch as in some districts smaller banks carried savings of their customers in the form of these certificates. Mr. Sproul also said that it was understood by the Presidents that this matter would be presented for consideration at this meeting and that he was referring to it at this time for that purpose.

Following a discussion of some of the practical problems that might be faced in carrying the Presidents' suggestion into operation, unanimous approval was given to a motion, duly made and seconded, that the Committee express general approval of the recommendation of the Presidents and request the executive committee of the Open Market Committee to undertake to work out and present to the Treasury a procedure by which the recommendation could be made effective before the next war loan drive.

Mr. Sproul said that it was noted by the Presidents at their conference that the situation with respect to evasive practices involving loans to facilitate speculative purchases of Government

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securities and indirect purchases of such securities by banks had improved considerably during the Fourth War Loan Drive, but that certain undesirable practices were still apparent such as the purchase of securities, particularly Treasury certificates, by banks through special arrangements with bank officers and directors and the acquisition of securities through subsidiary corporations and the making of loans on securities beyond the six-month period suggested by the supervisory authorities. It was the view of the Presidents, he said, that such practices were not desirable and that the procedure needed further clarification by the Treasury so that the Presidents might follow a uniform and consistent policy in dealing with member banks during subsequent drives. He also stated that for this reason the subject was referred by the Presidents' Conference to the Committee on Fiscal Agency Operations for review with Under Secretary of the Treasury Bell and report to the Conference.

Chairman Eccles stated that, in view of the fact that the Federal Open Market Committee had some responsibility in connection with Treasury financing through the banks and that the practice referred to above resulted in padding subscriptions, the Open Market Committee might concur in the view expressed by the Presidents and request the executive committee to inform the Treasury accordingly.

This suggestion was approved unanimously and, upon motion duly made and seconded and by unanimous vote, the executive committee was requested to proceed accordingly.

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In response to an inquiry from Mr. Gilbert, Chairman Eccles stated that the above action would not affect in any way the proposed discussions of this matter with representatives of the Treasury by the Presidents' Conference Committee on Fiscal Agency Operations.

Mr. Sproul then read the following statement of the consideration given by the Presidents in their conference to the redemption of war savings bonds by commercial banks and said that it was being brought to the attention of the Federal Open Market Committee for its information only as it did not call for action by that Committee:

"Consideration was given to the desirability of putting into effect as soon as possible a plan providing for redemption of war savings bonds by commercial banks in anticipation of the time when increased redemptions will make such decentralized redemption necessary for the public convenience, and to avoid undue expansion and contraction of the redemption facilities of the Federal Reserve Banks. The question of compensation to banks for this service was raised but it was thought best to consider the matter of expense in the light of subsequent developments.

"Without taking formal action, this subject was referred to the Committee on Fiscal Agency Operations with the understanding that the committee would discuss the matter with the Treasury, suggesting that the plan be put into operation as soon as practicable."

Subsequently and in accordance with action taken at this meeting, the statement of procedure for presenting Federal Reserve recommendations to the Treasury in regard to important matters of Government financing was approved by the members of the executive committee in the form of a letter to the Secretary of the Treasury as follows:

"In order to improve the procedure for presenting Federal Reserve recommendations to the Treasury in regard to

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"important matters of Government financing, the members of the Federal Open Market Committee have agreed unanimously that such recommendations should be presented to you through the Chairman and Vice Chairman of the Committee.

"It was felt that this procedure would be helpful from the standpoint of the Secretary of the Treasury as well as that of the Federal Reserve, and that the System's responsibilities under the law in connection with open-market policy could best be met if, before reaching final decisions on financing matters, the Secretary of the Treasury were to give the Federal Open Market Committee, or its Executive Committee, an opportunity to consider the recommendations obtained from staff and outside sources before presentation of Federal Reserve views. It was agreed that, whenever practicable, Federal Reserve recommendations should be submitted in or following conferences between the Secretary and the Under Secretary of the Treasury and the Chairman and Vice Chairman of the Federal Open Market Committee, which should be held after staff meetings and after meetings with private bankers and others.

"The considerations underlying the recommendation of this procedure may be summarized as follows:

"The Federal Open Market Committee is a statutory body created by Congress and empowered to direct and regulate the open market operations of the Federal Reserve Banks. Under the law, the time, character and volume of these open market operations must be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. No Federal Reserve Bank may carry on open market operations except in accordance with the directions of the Committee.

"Under existing conditions, the objectives of open-market policy must be and are to provide the reserve funds required for the orderly functioning of our money and banking system and to maintain a general credit situation which will facilitate Treasury borrowing necessary to finance the war. The System has undertaken to maintain conditions in the Government security market which will be conducive to the continued success of Treasury financing on the present general basis of yields. The means of accomplishing these objectives are ordinarily the purchase and sale of Government securities in the

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"open market.

"The Federal Open Market Committee, in discharging its responsibilities, is, therefore, of necessity a participant with the Treasury in the maintenance of the market for Government securities and in the problems of war financing. Its responsibility is that of a public body which has a greater concern than any group or persons outside of the Treasury in the timing of Treasury offerings, the types of securities offered, and their terms and conditions because of the importance of relating current financing to credit and monetary policies.

"It has been customary for the Secretary and Under Secretary of the Treasury to request the members of the Executive Committee of the Federal Open Market Committee to confer with them, or with members of the Treasury staff, on matters of financing policy and procedure. These have invariably been informal meetings with the individual members of the Executive Committee rather than formal meetings with the Executive Committee as such. In these conferences the members of the Executive Committee at times have given their individual views and recommendations, at times they have spoken for the Executive Committee, and at other times for the Federal Open Market Committee. In addition the Treasury at times has requested the individual views of Federal Reserve Bank presidents.

"In view of the System's statutory responsibility and the importance of the matters involved, the Committee felt that the discussions with the Treasury should be on a more clearly defined basis, and that this would be accomplished by having the Chairman and Vice Chairman of the Federal Open Market Committee recognized as the appropriate representatives through whom to present all Federal Reserve recommendations, written or oral, to the Treasury on important matters of financing policy. It was felt also that better results would be obtained by presenting such recommendations in conferences with the Secretary and Under Secretary of the Treasury alone, after whatever conferences are held by the Treasury with others at the staff or technical level, and after whatever meetings are held by the Secretary and Under Secretary with advisers or consultants, such as private bankers and Government security dealers, who are without direct public responsibility. In making their recommendations, the

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"Federal Reserve representatives would thus be able to take account of information obtained from these sources.

"The Federal Open Market Committee authorized its Executive Committee, through its Chairman and Vice Chairman, in so far as it is practicable, to follow the procedure outlined above. If you so desire, Mr. Sproul and I will be glad to discuss this procedure with you at your convenience."

Thereupon the meeting adjourned.

Chester Morrey  
Secretary.

Approved:

W. H. C. [Signature]  
Chairman.