

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 Thursday, May 4, 1944, at 10:45 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Messrs. Williams, Kincaid, and Edmiston,
Associate Economists
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open
Market Account
Mr. Thurston, Special Assistant to the
Chairman of the Board of Governors
Messrs. Piser and Kennedy, Chief and
Assistant Chief, respectively, of
the 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

Mr. Day, President of the Federal Reserve
Bank of San Francisco

Chairman Eccles stated that, in accordance with the request made of him and Mr. Sproul at the last joint meeting of the Board of Governors and the Presidents of the Federal Reserve Banks, a letter with respect to attendance at meetings of the Federal Open Market Committee and joint sessions of the Board of Governors and the Presidents

5/4/44

-2-

had been prepared and sent to the Presidents of all the Federal Reserve Banks in the following form under date of April 25, 1944, and that in accordance with the procedure set forth in the letter the first item on the agenda for this meeting would be statements by Messrs. Goldenweiser and Williams followed by such questions and discussion by the other economists as they might wish to offer and then by questions from the members of the Committee:

"When the Board met with the Presidents on March 1, 1944, there was a discussion of the question of attendance at meetings of the Federal Open Market Committee and at joint sessions of the Presidents and the Board of Governors. At that time it was agreed that Mr. Sproul and I should work out, in the light of the views expressed, a plan for future meetings. We have discussed the subject and feel that the following will tend in the direction of more orderly procedure:

"Federal Open Market Committee

"Attendance at meetings will be as follows:

1. Members of the Committee;
2. Officers of the Committee;
3. Presidents of the Federal Reserve Banks who are not regular members of the Committee, when they have occasion to be in Washington at the time of the meeting;
4. Messrs. Piser, Kennedy and Thurston;
5. If there should be need for the attendance of other members of the staffs of the Board and the Reserve Banks they will be called at the direction of the Chairman or the Vice Chairman for attendance during the time when their participation is desired.

"The established procedure for the Open Market Committee meetings, as you know, provides for reports from the economists. We believe that they could be more effectively presented and discussed if, instead of taking them up at the place on the program heretofore assigned to them, they were given first place in the order of business of the full Committee, with an adequate time allowance, preceding other items on the agenda. The plan which has been suggested to be followed for the present and which it is expected will

5/4/44

-3-

"be tried out at the next meeting of the Open Market Committee contemplates that the Committee's economists will agree upon a subject germane to the consideration of open market policy, of which the members of the Committee will be advised in advance, and which will be presented in the first instance by the economist for the Committee and the associate economist from the New York Bank, followed by such contributions to the discussion as the other associate economists may wish to make, and by questions by them and by members of the Committee. This will enable the members of the Committee to get the benefit of the thoughts of the group of economists prior to the Committee's consideration of open-market policy.

"Executive Committee
of the Federal Open Market Committee

"Attendance at meetings of the Executive Committee of the Federal Open Market Committee will be as follows:

1. Members of the Executive Committee;
2. Officers of the Executive Committee;
3. Messrs. Piser and Kennedy;
4. If there should be need for attendance of other members of the staffs of the Board and the Reserve Banks, they will be called at the direction of the Chairman or the Vice Chairman for attendance during the time when their participation is desired.

"Joint Meetings of the Board of Governors
and the Presidents

"The attendance at these meetings will be as follows:

1. Members of the Board of Governors;
2. Presidents of the Federal Reserve Banks;
3. The Secretary of the Board of Governors and the Secretary of the Presidents' Conference;
4. If there should be need for the attendance of other members of the staffs of the Board and the Reserve Banks, they will be called at the direction of the Chairman of the Board or the Chairman of the Presidents' Conference for attendance during the time when their participation is desired.

"Whenever there is to be a meeting of the Presidents' Conference preceding a joint session of the Presidents with the Board of Governors, it is understood that the Board will be furnished copies of the agenda of the Presidents' Conference in advance and that when the Conference has concluded its deliberations the Board will be advised promptly as to the conclusions reached, with the expectation that

5/4/44

-4-

"sufficient time will be allowed between the receipt of this information and the joint session to enable the Board to prepare for such discussion as may be desired."

In his statement Mr. Goldenweiser outlined a tentative program of postwar economic policy which he suggested might be a basis for discussion and for a more systematic preparation of a plan which might in turn be considered as a basis for the development of a System program. Mr. Williams addressed his comments primarily to the nature of the problem with which this country would be faced after the war and commented briefly upon some of the points in Mr. Goldenweiser's statement. Following the two statements, transcripts of which have been placed in the files of the Federal Open Market Committee, the other Associate Economists present raised questions concerning, and commented upon, the statements of Messrs. Goldenweiser and Williams, and there was a discussion by the members of the Committee.

Mr. Goldenweiser inquired whether the members of the Committee were in general agreement with the suggestion that the research departments of the Board and the Reserve Banks undertake to develop their views of an economic program for the postwar period, the use to be made of such studies to be decided when they had been completed. In the discussion of his inquiry, Mr. Goldenweiser made it clear that he was not seeking authority from the Committee for the study, as that was a matter for decision by the Board of Governors and the Federal Reserve Banks, but that he would like to know whether the members of the Committee felt

5/4/44

-5-

that the preparation of such a program should be undertaken and whether they were willing to "give their blessing" to the project.

The Members of the Committee indicated unanimous agreement that the matter was one of direct interest to the Federal Open Market Committee, as the study might serve as a basis for many of the policy decisions that the Committee might be called upon to make, and that therefore in their opinion the preparation of the program should be undertaken as promptly as possible.

Mr. Williams suggested that in the first instance the economists should present their independent analyses rather than try to agree upon a single report which might involve undesirable compromising of viewpoints and emphasis. At a later stage the separate reports could be drawn together into a combined program. There was general agreement with this opinion.

The meeting recessed at 1:15 p.m. for luncheon and to afford the executive committee an opportunity to meet, and reconvened at 3:00 p.m. with the same attendance as at the morning session except that Messrs. Edmiston, Dreibelbis, and Berntson were not present.

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

5/4/44

-6-

Market Committee as set forth in the minutes of the meetings of the executive committee held on February 29, March 1, and March 28-29, 1944, were approved, ratified, and confirmed.

Mr. Rouse distributed copies of a report prepared at the Federal Reserve Bank of New York of open market operations covering the period March 1 to April 29, 1944, inclusive. He discussed the important points of the report and supplemented it with a statement covering transactions handled for the System account on May 1, 2, and 3, 1944.

In connection with his report, Mr. Rouse also said that earlier in the week Under Secretary of the Treasury Bell called on the telephone and expressed concern about what appeared to him to be the weak tone in the market, particularly in view of the decline in excess reserves of member banks to between 600 and 700 million dollars. Mr. Rouse stated that he emphasized that the decline in reserves was a normal development, that there was no cause for concern because of it or because of the market situation, that the volume of dealings was very moderate, and that the price changes were small and well within the range of the agreed pattern for the securities with which the System was concerned.

Chairman Eccles said that Mr. Bell had also talked to him, and that his reply was that in view of the buying rate on bills the amount of excess reserves was no longer as important as it had been and that unless the Treasury wished to peg the market (which, of course, Mr. Bell

5/4/44

-7-

did not want to do) some fluctuations and price declines were inevitable.

Mr. Rouse added that following his conversation with Mr. Bell he made a number of inquiries throughout the country and found that banks felt comfortable about the way in which the market was being handled, and that in a subsequent conversation with Mr. Bell he seemed to be entirely satisfied.

There was a discussion of the possible future market trend of partially tax-exempt Treasury securities, especially in the light of the current discussions of the possibility and that the normal income tax rate for corporations might be reduced and the surtax increased. Mr. Rouse said that he had suggested to the Treasury that it should make a study of the tax situation of the commercial banks, a large number of which are entering the excess profits tax class this year, in order to determine whether this event would make it advisable to change the types of securities offered or to recommend changes in tax legislation.

Chairman Eccles was of the opinion that the responsibility of the System for an orderly market and the pattern of rates did not relate to the tax-exempt issues for the reason that the amount of these issues outstanding in relation to the total was not large and was getting smaller and the successful financing of the war and the stability of the market did not depend on the market for these issues except to a minor degree.

5/4/44

-8-

Mr. McKee asked what the responsibility of the Committee would be if the tax exemption were removed entirely, and Messrs. Eccles and Sproul suggested that there would be no reason for trying to maintain tax-exempt securities at their current prices and that possibly the only thing the System should do would be to cushion the decline to the extent required in the interest of general stability in the market.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period February 29 to May 3, 1944, inclusive, were approved, ratified, and confirmed.

Chairman Eccles reported that he had received a letter under date of April 5, 1944, from Mr. Bell reading as follows:

"The Secretary has asked me to acknowledge receipt of your letter of March 25, 1944, outlining a procedure to improve the presentation of Federal Reserve recommendations to the Treasury in regard to important matters of Government financing.

"We have no objection to the formalization of the presentation of the recommendations of the Federal Open Market Committee. We believe, however, that it would be well to keep many of our conferences on an informal basis. I am sure it was not intended to in any way interfere with the authority of the Secretary to require the Presidents of the Federal Reserve Banks, acting as fiscal agents of the United States, to submit their comments on particular situations in their respective districts and comments on views expressed by bankers in those districts.

"I feel that it would be much better to follow the informal procedure we have had in the past, but if the full Committee has decided that it wants it formalized, the Treasury will be glad to give it a trial."

The Chairman also reported that, with the approval of Mr. Sproul, he had sent the following reply to Mr. Bell on April 25, 1944:

5/4/44

-9-

"I have your letter of April 5 in response to my letter to the Secretary, dated March 25, in regard to Federal Reserve recommendations to the Treasury concerning important matters of Government financing. It seemed to us that the conference which Mr. Sproul and I, as Chairman and Vice Chairman of the Federal Open Market Committee, had with the Secretary and you, which followed the receipt of my letter regarding the suggested procedure, was more satisfactory than previous meetings and yet was free from unnecessary formality. Our earlier letter did not, in fact, emphasize formality, as such, but rather the placing of our discussions on a more clearly defined basis, and we outlined a procedure which it seemed to us would accomplish this objective. Consistent with that procedure, we presented to the Secretary a written memorandum of the views of the Executive Committee of the Federal Open Market Committee on prospective Treasury financing, and we noted with pleasure the Secretary's comment that the memorandum was an excellent one.

"In my letter of March 25 I said that Mr. Sproul and I would be glad to discuss this procedure with the Secretary if he so desired and at his convenience. I might add here, by way of further explanation, that the meeting of the Federal Open Market Committee on March 1, at which the new procedure was considered, was attended by all the Presidents of the Federal Reserve Banks (except San Francisco, which was represented by First Vice President Clerk in the absence of President Day). There was unanimous agreement on the plan which was approved by the Committee, on which, in addition to the members of the Board of Governors, all the Presidents of the Reserve Banks serve as members from time to time. It was the feeling of the Presidents, as well as of the members of the Board of Governors, that the designated representatives of the Committee were the appropriate channel through which Federal Reserve recommendations should be submitted, because the statutory responsibility of the Federal Reserve System with respect to open market policies is vested in the Federal Open Market Committee, and because only the members of the Committee, and particularly its Executive Committee, can be expected to be informed of the various considerations currently affecting Treasury financing and credit policy, and the relation of one to the other. In recognition of its responsibility, and in the light of its understanding, the Committee, as you know, has undertaken

5/4/44

-10-

"to exercise its influence toward maintaining conditions in the United States Government security market that will be satisfactory from the standpoint of the Government's war financing requirements. It is necessary, therefore, that recommendations of the Federal Reserve to the Treasury, with respect to the Treasury financing program, should be carefully coordinated with its responsibilities. Under the procedure we have suggested, it was thought that this would be accomplished, and that the confusion and misunderstandings which sometimes arise from a less clearly defined procedure, which does not permit or provide for consideration of all of the material and opinions bearing on the problem, and an exchange of views based thereon, would be largely obviated. This, it seemed to us, could not help but be beneficial to the Treasury as well as to the Federal Reserve.

"It was understood, of course, that the individual Reserve Banks would gladly continue to obtain and furnish to the Treasury any market information desired from the respective districts, including the views and recommendations of bankers and others interested, whenever requested by the Treasury.

"We feel confident that, in the light of further experience with this procedure, you will be satisfied with the results."

The two letters were read, and Mr. Peyton inquired why it was thought that a reply to Mr. Bell's letter was required. Chairman Eccles stated that it was not clear from the letter that the Treasury understood that the procedure contemplated that the Chairman and Vice Chairman of the Federal Open Market Committee would be speaking on behalf of the Presidents as well as the members of the Board of Governors and that the Treasury would be expected to obtain directly from the Presidents only such information as the Treasury desired with respect to the views and recommendations of bankers and others in the respective Federal Reserve districts. He also pointed out that the Federal

5/4/44

-11-

Reserve Banks, not the Presidents, were the fiscal agents of the Treasury, and that all the Presidents from time to time served as members of the Committee.

Mr. Sproul reported for the information of the full Committee the discussions with representatives of the Treasury of plans for the Fifth War Loan Drive. His review covered the substance of the points mentioned in the minutes of the meeting of the executive committee on March 29, 1944. In that connection, he suggested that the Federal Reserve Banks should exercise their influence in the direction of discouraging speculative purchases of securities in the next drive, but stated that it appeared that the Treasury sales organization was moving in the opposite direction.

Mr. Davis expressed the opinion that, in the absence of a strong position on the matter by the Treasury, the Treasury sales organization would not discourage speculative purchases, and he questioned whether, in the absence of such a position being taken by the Treasury, the Federal Reserve Banks should discourage such purchases, as that would only result in unfairness to the banks and others that complied with the policy. This matter was discussed, and there was agreement that unless a strong stand were taken by the Treasury there would be a large amount of speculative buying in the next drive.

Reference was made to methods used by banks to obtain bonds of restricted marketability, and Mr. Young stated that some insurance

5/4/44

-12-

companies had purchased these issues and banks had taken them over under repurchase agreement, holding them as if they had a note supported by the repurchase agreement. He also said that the Treasury had been asked for a ruling on the practice but that an answer had not yet been received. Other methods referred to were the purchase of restricted securities by bank officers and directors or by wholly-owned subsidiaries of banks, and there was agreement that the Treasury should rule on all such cases so that they could be handled in a uniform manner.

Mr. Sproul proposed that the System's stand on speculative purchases of securities during the drive be brought to the attention of the Treasury again and that particular reference be made to the fact that the policy of the Treasury would have to be effectively carried out by the Treasury sales organization or otherwise the Federal Reserve Banks would be faced with a policing job that it would be impossible for them to perform.

Chairman Eccles suggested that a letter be sent to the Treasury in accordance with Mr. Sproul's suggestion and that in the letter mention also be made of the methods referred to above for the purchase by banks of restricted-marketability securities and the purchase of marketable securities during the drives for resale to the banks.

Following reference by Mr. Davis to the action of the last Conference of Presidents on this matter, which was concurred

5/4/44

-13-

in by the Federal Open Market Committee at its meeting on March 1, 1944, Mr. McKee moved that the suggestions made by Messrs. Sproul and Eccles be referred to them to handle with the Treasury through the medium of a letter or an informal discussion, whichever in their opinion would be the more effective.

This motion was put by the chair and carried unanimously.

Mr. McKee referred to the probable decline in the reserve position of the Federal Reserve Banks over the next year and suggested that, in order that the System might be prepared to meet any situation that might develop in the reserve position of the individual Banks, consideration be given to changing the basis upon which securities in the System account are allocated among the 12 Federal Reserve Banks.

Mr. Rouse stated that he and Mr. Smead, Director of the Division of Bank Operations of the Board of Governors, had been working on the matter of allocation and had prepared a memorandum which discussed various aspects of the problem. Copies of the memorandum, which was dated May 4, 1944, were distributed, and Mr. Rouse made the further comment that the memorandum contained no recommendations but that it was hoped that the full Committee would indicate its preference as to its approach to the matter so that a definite plan could be prepared for approval by the Committee.

In the discussion which ensued, Mr. Peyton suggested that as a means of meeting a possible reduction below a satisfactory level in

5/4/44

-14-

the reserve position of individual Federal Reserve Banks all bills purchased by the Banks be transferred to the System account so that they could be allocated as a part of that account in such manner as to prevent the reserve ratio of a Reserve Bank from falling below a stated figure.

Mr. Sproul proposed (1) that, with respect to the long-range problem of reserve ratios, the executive committee be requested to study and report on the action to be taken, its timing, and the public preparation necessary for its successful execution, so that the full Committee at its next meeting would be in a position to approve a program which would meet the anticipated decline over the next year or two in Federal Reserve Bank reserves, and (2) that, with respect to the short-range problem, the members of the full Committee read the memorandum prepared by Messrs. Smead and Rouse and send in any suggestions that they might wish to make with respect to the method to be used to meet reductions in the reserve ratios of the individual Reserve Banks and to the method used in allocating the System open market account, with the understanding that the executive committee would be authorized to work out a procedure for handling this problem which would be recommended to the Banks and, if accepted by them, put into effect.

Upon motion duly made and seconded,
and by unanimous vote, Mr. Sproul's pro-
posal was approved, it being generally
agreed that for the time being the reserve

5/4/44

-15-

ratio of a Federal Reserve Bank should not be allowed to drop below 45.

Inquiry was made whether there might be need for action before the procedure as outlined above could be carried into effect, and it was agreed that if action were called for the situation could be met in the same way as was done recently when bills were purchased from the Federal Reserve Bank of St. Louis by the Chicago and San Francisco Banks.

There was unanimous agreement on the part of the members of the Committee that no change should be made at this time in the direction issued to the Federal Reserve Banks at the meeting of the Committee on March 1, 1944, with respect to the purchase by the Banks of Treasury bills at a discount rate of $3/8$ per cent with an option on the part of the seller to repurchase.

In connection with this decision, upon motion duly made and seconded, it was voted unanimously that, in the event the procedure worked out by the executive committee for allocation of the securities held in the System and option accounts should require any change in that direction, the executive committee would be authorized to make such changes as might be found to be necessary.

All of the members of the Committee were of the opinion that there was no occasion at the present time to change in any way the authority granted to the executive committee at the last meeting of the full Committee to direct the execution of transactions for the System account.

Thereupon, upon motion duly made and seconded and by unanimous vote, the following direction was approved with the understanding that the limitations contained in

5/4/44

-16-

the direction would 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 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.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.