

TWENTY-NINTH
ANNUAL REPORT

of the
BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1942

RECORD OF POLICY ACTIONS FEDERAL OPEN MARKET COMMITTEE

MEETING ON MARCH 2, 1942

Members present: Mr. Eccles, chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Williams, Mr. Gilbert, Mr. Young, Mr. Leedy.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee of the Federal Open Market Committee 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 (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement) as in its judgment from time to time may be advisable in the light of existing conditions; provided that the aggregate amount of securities held in the account at the close of this date shall not be increased or decreased by more than \$500,000,000.”

Following the entry of the United States into the war in December, the expansion of the program of national defense increased very greatly the amount of funds required to finance the war effort. The Board of Governors, after consultation with the Presidents of the Federal Reserve Banks, had, on December 8, 1941, issued a statement that the Federal Reserve System was prepared to use its powers to assure that an ample supply of funds was available at all times for financing the war effort and to exert its influence toward maintaining conditions in the Government security market that were satisfactory from the standpoint of the Government's requirements. At this meeting of the Federal Open Market Committee there was a full discussion of open market policy in the light of suggestions that had been made in conferences with representatives of the Treasury with respect to the Treasury's program of war financing. It was agreed that the policy to be followed by the Federal Open Market Committee was so closely related to the financing policies of the Treasury that, pending a further determination by the Treasury of what its program would be, the Federal Open Market Committee should continue the open market policy then in effect under which the executive committee was authorized, within the limits established by the full Committee, to take such action in the market as in the judgment of the executive committee might be required by any conditions that might arise. The direction set forth above, which was in the same form as the direction issued at the meeting of the Federal Open Market Committee on December 12, 1941, was approved for that purpose.

MEETING ON MAY 8, 1942

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Williams, Mr. Gilbert, Mr. Young, Mr. Leedy.

1. Purchases by Federal Reserve Banks of Treasury Bills at Fixed Discount Rate.

On April 30, 1942, in connection with the announcement of the May Treasury financing, which included an increase to \$250,000,000 in the weekly offering of Treasury bills, all the members of the Federal Open Market Committee agreed upon a direction which was immediately issued to the twelve Federal Reserve Banks to purchase for the System open market account all United States Treasury bills that might be offered to such Banks on a discount basis at a rate of $\frac{3}{8}$ per cent per annum.

At this meeting, upon motion duly made and seconded, it was voted unanimously to approve, ratify, and confirm the direction and to continue it in effect until otherwise directed by the Federal Open Market Committee.

After the meeting of the Federal Open Market Committee, which was held on March 2, 1942, members of the Committee continued to confer from time to time with representatives of the Treasury on the subject of the formulation of a Treasury financing program which would be designed to attract as many funds as possible from sources other than commercial banks and regarding the methods by which the Federal Reserve System would supply such reserves as were necessary to assure the successful financing of the war. In connection with the latter problem and in order to carry out the existing open market policy, the members of the executive committee of the Open Market Committee had agreed that the general market should be maintained on about the then existing curve of rates (but that this did not mean special support for issues which might be out of line or that any issue must be held at par or at any other fixed price), and that the Federal Open Market Committee should use its best judgment with respect to the market and with regard for the relation of the market to the general financing program. The direction to the Federal Reserve Banks to purchase Treasury bills on a fixed discount basis was agreed upon by the members of the Committee as a means of stabilizing the bill market, of effecting a broader distribution of bills, and of encouraging banks and others to utilize available liquid funds for the purchase of bills with the assurance that, if at any time it was necessary to sell bills to adjust their individual positions, the Federal Reserve Banks of their respective districts would purchase the bills at the announced rate.

2. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee 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 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 Treasury bills purchased

pursuant to the direction of the Federal Open Market Committee issued under date of April 30, 1942) shall not be increased or decreased by more than \$500,000,000."

The foregoing direction differed from the one approved at the previous meeting of the Committee in that it provided for purchases either in the open market or directly from the Treasury and for purchases either for the purpose of maintaining the general level of prices and yields of Government securities or for the purpose of maintaining an adequate supply of funds in the market, and made it clear that Treasury bills purchased by Federal Reserve Banks pursuant to the direction issued April 30, 1942, were not restricted by the limit placed upon the authority of the executive committee by this direction.

Open market operations in the previous months had been largely for the purpose of maintaining about the existing level of rates of Government securities in a period when the Treasury was offering a large volume of new securities, and for the purpose of furnishing funds to banks whose reserves were being reduced through the purchase of additional amounts of Government obligations. There was agreement that operations in the open market during the period before another meeting of the Committee would continue to be largely for these purposes and that the terms of the direction to the executive committee should be changed to relate the authority of the executive committee specifically to these conditions.

On March 27, 1942, the Second War Powers Act was approved, which authorized the Federal Reserve Banks, until December 31, 1944, or such earlier time as Congress or the President may designate, to purchase Government securities directly from the Treasury, provided that the aggregate amount of such securities purchased and held at any one time does not exceed \$5,000,000,000. In accordance with this change in the law, the authority of the executive committee was expanded to permit direct purchases of securities from the Treasury in order to provide for temporary accommodations to the Treasury during periods of Treasury financing or other periods when it was desirable for a brief time to allow Treasury balances at the Reserve Banks to decline.

MEETING ON JUNE 22, 1942

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Draper, Mr. Evans, Mr. Williams, Mr. Gilbert, Mr. Young, Mr. Leedy.

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, the following direction to the executive committee 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, or