

THIRTIETH
ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1943

RECORD OF POLICY ACTIONS FEDERAL OPEN MARKET COMMITTEE

MEETING ON JANUARY 26, 1943

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, which was in the same form as the direction issued at the meeting of the Federal Open Market Committee on December 14, 1942, 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 direction of the Federal Open Market Committee issued under date of September 28, 1942) shall not be increased or decreased by more than 1 billion dollars.

"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 billion dollars."

The open market policy under which purchases of Government securities were made in 1942 was determined with a view to adapting the System's open market operations as effectively as possible to the program of the Treasury for war financing and to carrying out the commitment of the System to use its powers to assure that an ample supply of funds would be available at all times for financing the war effort and to exert its influence toward the maintenance of conditions in the Government security market that were satisfactory from the standpoint of the Government's requirements.

With the continued growth in the volume of production for war and in the absence of a very large increase in taxes, it was realized that the requirements of the Government for borrowed funds would be larger during the current year; that the needs of banks for reserve funds would continue to expand because of the growth in their deposits as a result of Government

borrowing and because of increases in currency circulation, and that it would be necessary for the System to continue to supply these reserve funds. It was agreed, therefore, that the existing policy of authorizing the executive committee to purchase or sell securities for the System account within stated limits for the purposes stated in the direction set forth above should not be changed and that the renewal of the existing direction to the executive committee would carry that decision into effect.

2. Replacement of Maturing Securities.

Upon motion duly made and seconded, it was understood that, under the authority granted to the executive committee, it would undertake to arrange with the Treasury for an amendment to the terms under which the various issues of Government securities were offered so as to permit full allotment to the System of securities issued to refund maturing direct obligations, to the extent that replacement of such maturing securities held in the System account appeared to the executive committee to be desirable.

On this motion Messrs. Eccles, Szymczak, McKee, Ransom, Draper, Evans, Gilbert, Young, and Leedy voted "aye" and Messrs. Sproul and Williams voted "no."

This action was taken following consideration of the procedures that might be used to supply needed reserve funds to the market and was designed particularly to open the way for the direct replacement of maturing bills held by the Federal Reserve Banks. It was the majority view that inasmuch as the Reserve Banks held substantial amounts of maturing bills each week, which would have to be replaced with other securities in order to maintain the necessary volume of funds in the market, that could be accomplished most effectively if arrangements were made for full allotment of new bills in the amount of the maturing bills held by the Federal Reserve Banks.

It was pointed out that this procedure, which was the same as that generally followed in the past in connection with the replacement of maturing certificates, notes, and bonds held in the System account, would not result in placing any additional funds in the market but would obviate the necessity on the part of the Treasury of redeeming the weekly maturities of bills followed by competition on the part of the Federal Reserve Banks in the market for a similar amount of new bills, in order to effect an indirect replacement that could be accomplished with less disturbance to the market by direct replacement. The availability of this arrangement was believed to be particularly desirable during a period when it was expected that the System would have to purchase in the market a very substantial amount of additional securities for the purpose of supplying needed reserve funds.

It was the minority view that nothing should be done which might create public concern about the credit of the Government; that to embark on a program of direct buying of bills from the Treasury might create such concern; and that therefore direct purchases of bills from the Treasury, to replace maturing bills held by the Federal Reserve Banks, should not be resorted to until necessity forced such action, which could then be clearly explained. The minority felt that, for the present, the better procedure would be to continue to let the market take the bills it wanted, and, in so far as necessary, to replace System bill maturities indirectly through the market, or with other securities the market might wish to sell, this procedure having the advantage of public acceptance through previous experience.