

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, March 17, 1941, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Draper
Mr. Sproul
Mr. Fleming
Mr. Leach
Mr. Peyton
Mr. C. S. Young (alternate for Mr. Davis)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
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
Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors

Messrs. Roy A. Young, Sinclair, and Gilbert,
Alternate Members of the Federal Open Market Committee

Mr. Day, President of the Federal Reserve Bank of San Francisco, and Messrs. McLarin, Hitt, and Leedy, First Vice Presidents of the Federal Reserve Banks of Atlanta, St. Louis, and Kansas City, respectively

Mr. Sienkiewicz, Secretary of the Presidents' Conference

It was agreed that before taking up other business it would be desirable to hear the reports of Messrs. Goldenweiser and Williams

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as Economist and Associate Economist of the Committee.

After reviewing the existing business situation, Mr. Goldenweiser discussed the prospective upward trend of business activity and the problems of credit control and suggested that consideration should be given by the System to plans for selective credit controls, particularly in the field of installment credit. He also referred to an analysis prepared by the Board's staff of the reserve position of member banks as of the week ending January 15, 1941, and said that the analysis had led him to feel that any new powers to increase reserve requirements for the purpose of absorbing excess reserves of member banks should be under the so-called "ceiling plan" rather than by specific percentage increases in reserve requirements which would apply indiscriminately to all banks or to certain classes of banks. He referred to the problem facing the Treasury in connection with financing the defense program and suggested that a System committee be appointed to work out a plan for reducing the types of Government securities outstanding and simplifying financing procedure which could be submitted to the Treasury with a plan for cooperation by the System with the Treasury in financing the defense program.

Mr. Williams expressed the opinion that the more pressing problems at the moment were shortages in certain materials which must be met by action outside of the Federal Reserve System and the need for a clarification of the fiscal program of the Treasury with an indication of the Treasury's financing needs over the next fifteen months,

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and that the policy of the System should be one of cooperating in the solution of these problems and of letting it be known that it did not contemplate action in the monetary field at this time.

Copies of the statements made by Messrs. Goldenweiser and Williams have been placed in the Committee's files.

There ensued a discussion of several of the questions raised by Messrs. Goldenweiser and Williams and particularly of the problems involved in financing the defense program and how the System could cooperate in the solution of these problems. During this discussion the suggestion was made that the executive committee of the Federal Open Market Committee be asked to serve as the committee suggested by Mr. Goldenweiser for the development of a plan of Government financing for submission to the Treasury.

While the discussion was in progress Mr. Dreibelbis left the meeting.

At 12:50 p.m. the meeting recessed and reconvened at 2:30 p.m. with Messrs. Eccles, Szymczak, McKee, Ransom, Davis, Draper, Sproul, Fleming, Leach, Peyton, C. S. Young, Morrill, Carpenter, Goldenweiser, Williams, Wyatt, Dreibelbis, Rouse, and Thurston in attendance.

Mr. Morrill reported that records of the election of members and alternate members of the Federal Open Market Committee representing the Federal Reserve Banks for the year beginning March 1, 1941, had been received in the office of the Secretary of the Committee, that each newly elected member and alternate member had executed the

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required oath of office (with the exception of Mr. Davis, who had not yet resigned as a member of the Board of Governors and assumed his duties as President of the Federal Reserve Bank of St. Louis), and that it was the opinion of Counsel on the basis of the records of election that had been received (1) that the following members and alternate members were legally qualified to serve at the present time, (2) that, upon assuming his duties as President of the Federal Reserve Bank of St. Louis, Mr. Davis would be qualified to take the oath of office and assume his duties as a representative member of the Committee, and (3) that when the person to be appointed as President of the Federal Reserve Bank of Kansas City assumed the duties of that office he would be qualified to take the oath of office and assume his duties as an alternate for Mr. Peyton:

Allan Sproul, President of the Federal Reserve Bank of New York, with Roy A. Young, President of the Federal Reserve Bank of Boston, as alternate member;

M. J. Fleming, President of the Federal Reserve Bank of Cleveland, with John S. Sinclair, President of the Federal Reserve Bank of Philadelphia, as alternate member;

Hugh Leach, President of the Federal Reserve Bank of Richmond, with R. R. Gilbert, President of the Federal Reserve Bank of Dallas, as alternate member;

C. S. Young, President of the Federal Reserve Bank of Chicago, as alternate for Mr. Davis; and

John N. Peyton, President of the Federal Reserve Bank of Minneapolis.

Upon motion duly made and seconded, the following officers of the Federal Open Market Committee were elected by unanimous votes to serve until the election of their successors at the first meeting of the Committee after March 1, 1942:

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

Upon motion duly made and seconded, and by unanimous vote, the Committee selected the Federal Reserve Bank of New York to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after March 1, 1942.

Mr. Sproul stated that the board of directors of the Federal Reserve Bank of New York had selected R. G. Rouse as Manager of the System open market account, subject to the New York Bank being selected as the Bank to execute transactions for the System open market account and to his approval 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 account was approved.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairman of the Federal Open Market Committee (who, under the provisions of the bylaws, is also chairman of the executive committee) as members and alternate members of the executive committee until the selection of their successors at the first meeting of the Federal Open Market Committee after March 1, 1942:

<u>Members</u>	<u>Alternate Members</u>
Ronald Ransom	Ernest G. Draper

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Members: (Continued)

John K. McKee
Allan Sproul
Hugh Leach

Alternate Members

M. S. Szymczak
(To serve in the order
named as alternates
for Messrs. Eccles,
Ransom, and McKee)

M. J. Fleming
John N. Peyton
(To serve in the order
named as alternates
for Messrs. Sproul and
Leach)

Upon motion duly made and seconded,
and by unanimous vote, the minutes of the
meeting of the Federal Open Market Commit-
tee held on December 18, 1940, were ap-
proved.

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 min-
utes of the meeting of the executive com-
mittee on December 18, 1940, were ap-
proved, ratified, and confirmed.

During the meeting Mr. Rouse distributed copies of a report
of open market operations prepared at the Federal Reserve Bank of New
York covering the period from December 17, 1940, to March 15, 1941,
inclusive, and at this point he reviewed the principal features of
the report.

During Mr. Rouse's statement Mr. Piser, Senior Economist in
the Division of Research and Statistics of the Board of Governors, en-
tered the room.

Upon motion duly made and seconded,
and by unanimous vote, the transactions

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in the System open market account for the period from December 17, 1940, to March 15, 1941, inclusive, were approved, ratified, and confirmed.

There ensued a discussion of the instructions to be issued to the executive committee with respect to transactions in the System open market account and there was agreement that there was no occasion at this time for a change in the form of resolution adopted at the last meeting of the Federal Open Market Committee. Mr. Sproul raised the question whether, in view of the possible emergencies that might develop before another meeting of the Committee is held, the limit of \$200,000,000 contained in the resolution on increases or decreases in the amount of securities held in the account should be increased. It was agreed, however, that if it should appear likely that occasion would arise for the purchase or sale of securities for the System account beyond the limit fixed by the resolution, another meeting of the Federal Open Market Committee should be called.

Thereupon, upon motion duly made and seconded, the following resolution, which was in the same form as the resolution adopted at the meeting of the Committee on December 18, 1940, was adopted 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

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the aggregate amount of securities held in the account at the close of this date shall not be increased or decreased by more than \$200,000,000.

Mr. Morrill stated that under date of December 16, 1940, a request was received from the Treasury Department for authority (1) to publish in the annual report of the Secretary of the Treasury schedules of the holdings of the Federal Reserve Banks as of June 30, 1940, which would show separately the holdings of direct and guaranteed obligations, and (2) to continue to publish in a table in the Treasury monthly bulletin the amount of direct obligations held by the Federal Reserve Banks as well as the holdings of guaranteed obligations, the latter being grouped with similar holdings of Government trust funds and agencies. The request of the Treasury, Mr. Morrill said, was taken up with the Federal Reserve Bank of New York and under date of December 23, 1940, a letter was received from Mr. Rouse in which it was stated that it would appear desirable to authorize the Treasury to publish the information in the Secretary's annual report but that the question of the publication of separate figures on direct and guaranteed obligations in the Treasury's monthly bulletin was of a somewhat different nature in that it supplied the market with recent information not otherwise available, and that, while at the present time it was not of importance, conditions could be visualized in which it might not be desirable to have the information available so quickly. Mr. Rouse's letter suggested that the Treasury be allowed to use the figures in the monthly bulletin provided the amount of

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direct obligations be omitted from the bulletin table as a separate item and lumped with those of "other holders" or those of Government agencies and trust funds in the same manner as guaranteed obligations were shown. Inasmuch as the annual report of the Secretary of the Treasury was ready to go to the press when the matter came up the question was presented to Chairman Eccles, as Chairman of the Federal Open Market Committee, who authorized the Secretary's office to advise the Treasury that no objection would be made to the publication of the information in the annual report of the Secretary of the Treasury.

Mr. Rouse stated that the question involved was one of principle whether the Committee wished to authorize the Treasury to publish information with respect to the System account before it was published by the Federal Reserve System itself, that the matter was of no particular importance at this time because of the small amount of holdings of guaranteed obligations, but that if at any time there should be a considerable volume of transactions involving guaranteed issues and information with respect to these transactions were currently released it might have an undesirable effect on the market and the information might be taken advantage of by speculators.

In the discussion which ensued, Mr. McKee moved that the action taken by Chairman Eccles in this matter be ratified, that the Committee recommend to the Board of Governors that separate figures with respect to direct and guaranteed holdings of the Federal Reserve Banks be shown in the weekly statements of condition of Federal Reserve Banks published by the Board and in the

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Federal Reserve Bulletin, and that the Treasury be advised that no objection would be made to the publication in the Treasury monthly bulletin of data with respect to direct and guaranteed holdings of the Federal Reserve Banks in the manner in which they were shown in the table on page 17 of the January 1941 Treasury bulletin.

During the discussion of Mr. McKee's motion, Mr. Sproul suggested that the publication by the Federal Reserve System of separate figures with respect to direct and guaranteed holdings of the Federal Reserve Banks be in the Federal Reserve Bulletin and not in the weekly statement of condition of Federal Reserve Banks for the reason that if publication in the latter form were adopted it would be difficult, if not impossible, to discontinue the weekly publication of the figures and it might be found, should it become necessary again to carry out substantial operations in guaranteed obligations, that current publication of such information would be undesirable.

At the conclusion of the discussion, Mr. McKee's motion, which was duly seconded, was adopted by unanimous vote.

At this point Messrs. Roy A. Young, Sinclair, Gilbert, Day, McLarin, Hitt, Leedy, and Sienkiewicz reentered the room and Mr. Rouse reviewed for their information the conditions in the Government security market during the recent period.

Chairman Eccles suggested for discussion the question of the place of the Federal Reserve System as a central banking system in the existing situation, particularly in view of the lack of adequate

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authority in the System to control the credit situation. He also suggested that consideration should be given to the part that the System should play in assisting the Treasury in regard to the financing operations of the Government.

There followed a discussion of the questions raised by Chairman Eccles and of changes that might be made in the procedure for issuing Government securities. Chairman Eccles suggested that the executive committee be requested to have some preliminary studies prepared which could be presented to, and discussed with, the Presidents of all Federal Reserve Banks before taking the matter up with the Treasury.

Mr. McKee suggested a review of the available information as to the financing procedure followed during the last war.

At the conclusion of the discussion, Mr. Sproul moved that the executive committee have studies prepared along the lines suggested during the discussion and that, when a draft of program had been prepared, the Presidents be called to Washington for the purpose of discussing the program with the understanding that, if a program could be agreed upon, it would be presented to the Treasury for consideration.

Mr. Sproul's motion, having been duly seconded, was put by the Chair and carried unanimously.

Mr. Fleming suggested that if possible, copies of the draft of program prepared for discussion with the Presidents be sent to them before a meeting is called so that they will have an opportunity to study it.

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In a further discussion, the suggestion was made by Mr. Davis that the program prepared by the executive committee should be formulated in the light of the entire economic situation rather than on the narrower basis of the problems immediately connected with Government financing.

Thereupon the meeting adjourned.

Chester Morie
Secretary.

Approved:

W. H. ...
Chairman.