

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, September 7, 1943, at 12:00 noon.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Ransom
Mr. Evans
Mr. Paddock

Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Messrs. Piser and Kennedy, Chief and
Assistant Chief, respectively, of
the Government Securities Section,
Division of Research and Statistics
of the Board of Governors

This meeting was called for the purpose of a discussion of the relationship of the Federal Reserve System to the Government security dealers and for consideration of the memorandum prepared on this subject by Mr. Rouse as Manager of the System Open Market Account in response to the request made of the Federal Reserve Bank of New York at the last meeting of the Federal Open Market Committee. A copy of Mr. Rouse's memorandum had been sent to each of the members of the executive committee before this meeting. However, because of the railroad wreck on the Pennsylvania lines yesterday afternoon, Mr. Rouse had not been able to reach Washington, and it was decided that the discussion should be deferred for a later meeting of the executive committee to be held sometime before the next meeting of the Federal Open Market Committee which had been called to convene on October 18, 1943.

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There was a further discussion of the suggestion that the Treasury issue nine-month $3/4$ per cent Treasury bills to replace existing bills and $7/8$ per cent certificates and that the Federal Reserve System post a buying rate of $3/4$ per cent on such bills. This suggestion was discussed at an informal meeting of members of the executive committee in Washington on July 13, 1943, (Mr. Sproul was not present) and was incorporated in a memorandum which contained suggestions agreed upon at that meeting with respect to the Treasury financing program and which was submitted at a meeting at the Treasury on that date.

Chairman Eccles outlined again the reasons why he felt the issuance of such a bill would be desirable and in that connection referred to a memorandum prepared by Mr. Piser under date of September 4, 1943, with respect to dealers' transactions in Treasury bills and maturities of Treasury bills held by the Federal Reserve System during the period from July 14 to September 2, 1943, inclusive.

Mr. Sproul reviewed the developments which led to the present situation in the short-term money market and expressed the opinion, for reasons which he stated, that the issuance of nine-month bills would not be effective in meeting the situation, that such a bill would not stop the practice of "playing the pattern of rates" for the reason that the practice would be shifted to the long-term securities where there were possibilities for greater profits, and that he would prefer to increase the bill rate to $1/2$ per cent, which would preserve

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the 90-day bill as an instrument of Treasury financing and would reduce the present spread between the rates on bills and 7/8 per cent certificates which had been too great for some time.

The views as expressed by Messrs. Eccles and Sproul were discussed at length, and there was agreement with the suggestion that, since nothing could be done about the matter until the third war loan drive was completed, further consideration of it should be deferred until after the drive, when it could be given further thought in the light of the experience during the drive, including the extent to which outstanding certificates were sold at a premium for the purpose of purchasing longer-term securities, including the new certificates, and the use made by banks of the excess reserves created during the drive.

Chairman Eccles made the further suggestion that under its existing instructions from the executive committee the Federal Reserve Bank of New York might permit the prices of outstanding issues of certificates to increase somewhat as a means of counteracting the practice of "playing the pattern of rates", and Mr. Sproul stated that these prices were already high in relation to the agreed pattern of rates.

Upon motion duly made and seconded,
and by unanimous vote, the minutes of the
meeting of the executive committee of the
Federal Open Market Committee held on June
28, 1943, were approved.

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

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in the System account during the period June 28 to September 6, 1943, inclusive, as reported daily by the Federal Reserve Bank of New York to the members of the executive committee, were approved, ratified, and confirmed.

Reference was then made to the authority that should be granted to the New York Bank during the period before another meeting of the committee, and there was agreement that the renewal of the direction issued to the Federal Reserve Bank of New York at the last meeting of the executive committee would adequately meet the situation, with the understanding that if it should be necessary to grant additional authority to the New York Bank to purchase special short-term certificates during the period prior to September 15, 1943, such authority could be granted by the members of the executive committee over the telephone.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York, until otherwise directed by the executive committee,

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, 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 of maintaining an adequate supply of funds in the market; provided (a) that the total amount of securities in the account at the close of September 7, 1943, shall not be increased or decreased by more than \$500,000,000 (exclusive

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of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction), and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of March 2 and June 28, 1943, or the redemption of such bills;

(2) To purchase direct from the Treasury for the System open market account 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 total amount of such certificates held in the account at any one time shall not exceed \$500,000,000; and

(3) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other purchases, sales, or exchanges for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

In taking this action, it was understood that the limitations contained in the direction included commitments for purchases or sales of securities for the System account.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved: 
Chairman.