

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

To Chairman Eccles

Subject: \_\_\_\_\_

From Mr. Morrill

Date March 25, 1944

I talked with Dan Bell on the phone about 2 o'clock and told him in substance what you had on your mind about the letters and he made no particular comment beyond expressing his interest in the subject and his appreciation of our sending him a copy at the same time it was sent to the Secretary. He did make the remark that having already received the communication about the dealers in New York it looked as if we were trying to formalize everything. I told him that the Committee was really trying to develop practical methods of procedure which it thought would be of benefit both to the Treasury and the Committee in the long run.

He asked whether I was mailing the letters and I told him that I had planned to send them over by messenger. He suggested I mail them instead as he personally would rather not receive it today. Accordingly, I have mailed the letter to the Secretary and a copy to Dan Bell and copies to all the Presidents. In addition, I am furnishing a copy to each member of the Board.

*Am*

*Open Mkt  
Operations*

March 25, 1944.

Dear Dan:

Referring to our telephone talk regarding the procedure for presenting Federal Reserve recommendations to the Treasury concerning important matters of Government financing, I am enclosing for your information a copy of the letter which I am sending today to the Secretary setting forth the procedure agreed upon by the Federal Open Market Committee at its last meeting.

Sincerely yours,

M. S. Eccles.

Honorable D. W. Bell,  
Under Secretary of the Treasury,  
Washington 25, D. C.

CH:mla

March 25, 1944.

Dear Mr. Secretary:

In order to improve the procedure for presenting Federal Reserve recommendations to the Treasury in regard to important matters of Government financing, the members of the Federal Open Market Committee have agreed unanimously that such recommendations should be presented to you through the Chairman and Vice Chairman of the Committee.

It was felt that this procedure would be helpful from the standpoint of the Secretary of the Treasury as well as that of the Federal Reserve, and that the System's responsibilities under the law in connection with open-market policy could best be met if, before reaching final decisions on financing matters, the Secretary of the Treasury were to give the Federal Open Market Committee, or its Executive Committee, an opportunity to consider the recommendations obtained from staff and outside sources before presentation of Federal Reserve views. It was agreed that, whenever practicable, Federal Reserve recommendations should be submitted in or following conferences between the Secretary and the Under Secretary of the Treasury and the Chairman and Vice Chairman of the Federal Open Market Committee, which should be held after staff meetings and after meetings with private bankers and others.

The considerations underlying the recommendation of this procedure may be summarized as follows:

The Federal Open Market Committee is a statutory body created by Congress and empowered to direct and regulate the open market operations of the Federal Reserve Banks. Under the law, the time, character and volume of these open market operations must be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country. No Federal Reserve Bank may carry on open market operations except in accordance with the directions of the Committee.

Under existing conditions, the objectives of open-market policy must be and are to provide the reserve funds required for the orderly functioning of our money and banking system and to maintain a general credit situation which will facilitate Treasury borrowing necessary to finance the war. The System has undertaken to maintain conditions in the Government security market which will be conducive to the continued success of Treasury financing on the present general basis of yields.

The means of accomplishing these objectives are ordinarily the purchase and sale of Government securities in the open market.

The Federal Open Market Committee, in discharging its responsibilities is, therefore, of necessity a participant with the Treasury in the maintenance of the market for Government securities and in the problems of war financing. Its responsibility is that of a public body which has a greater concern than any group or persons outside of the Treasury in the timing of Treasury offerings, the types of securities offered, and their terms and conditions because of the importance of relating current financing to credit and monetary policies.

It has been customary for the Secretary and Under Secretary of the Treasury to request the members of the Executive Committee of the Federal Open Market Committee to confer with them, or with members of the Treasury staff, on matters of financing policy and procedure. These have invariably been informal meetings with the individual members of the Executive Committee rather than formal meetings with the Executive Committee as such. In these conferences the members of the Executive Committee at times have given their individual views and recommendations, at times they have spoken for the Executive Committee, and at other times for the Federal Open Market Committee. In addition the Treasury at times has requested the individual views of Federal Reserve Bank presidents.

In view of the System's statutory responsibility and the importance of the matters involved, the Committee felt that the discussions with the Treasury should be on a more clearly defined basis, and that this would be accomplished by having the Chairman and Vice Chairman of the Federal Open Market Committee recognized as the appropriate representatives through whom to present all Federal Reserve recommendations, written or oral, to the Treasury on important matters of financing policy. It was felt also that better results would be obtained by presenting such recommendations in conferences with the Secretary and Under Secretary of the Treasury alone, after whatever conferences are held by the Treasury with others at the staff or technical level, and after whatever meetings are held by the Secretary and Under Secretary with advisers or consultants, such as private bankers and Government security dealers, who are without direct public responsibility. In making their recommendations, the Federal Reserve representatives would thus be able to take account of information obtained from these sources.

The Federal Open Market Committee authorized its Executive Committee, through its Chairman and Vice Chairman, in so far as it is

practicable, to follow the procedure outlined above. If you so desire, Mr. Sproul and I will be glad to discuss this procedure with you at your convenience.

Sincerely yours,

M. S. Eccles, Chairman,  
Federal Open Market Committee.

Honorable Henry Morgenthau, Jr.,  
Secretary of the Treasury,  
Washington 25, D. C.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

To Chairman Eccles

Date March 30, 1944

From Mr. Carpenter

Subject: \_\_\_\_\_

*Treasury Finance*

It has just come to our attention that late yesterday afternoon Mr. Bell wired the Presidents of all the Federal Reserve Banks asking for their reaction to a proposal to provide a \$250 denomination for Series E bonds which would first be made available for the fifth war loan.

This was not mentioned in any of our recent discussions of Treasury financing and no mention was made of it in your report at the meeting yesterday afternoon of the discussions at the Treasury. The wire disregards the procedure suggested in your letter of March 25 to Secretary Morgenthau.



cc: Mr. McKee  
Mr. Draper  
Mr. Piser

BOARD OF GOVERNORS  
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FEDERAL RESERVE SYSTEM

# Office Correspondence

To Chairman Eccles

Date April 7, 1944

From Chester Morrill, Secretary

Subject: \_\_\_\_\_

You will find attached a copy of a letter dated April 5 addressed to Chairman Eccles by Mr. Bell, of the Treasury, which was received in the Chairman's Office yesterday, in reply to the Chairman's letter of March 25, 1944, outlining a procedure for the presentation of Federal Reserve recommendations to the Treasury in regard to Government financing.

Attachment.



THE UNDER SECRETARY OF THE TREASURY

WASHINGTON

April 5, 1944.

Dear Mr. Chairman:

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.

Very truly yours,

*see Buhl*

Under Secretary of the Treasury.

Honorable Marriner S. Eccles  
Chairman  
Federal Open Market Committee  
Federal Reserve Building  
Washington, D. C.

