

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, August 18, 1942, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. Draper

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. Rouse, Manager of the System Open Market Account
Mr. Piser, Chief, Government Securities Section, Division of Research and Statistics of the Board of Governors

Messrs. Ransom and Evans, members of the Federal Open Market Committee

Mr. Morrill reported that when this meeting was called Mr. Alfred H. Williams was not available and there was not sufficient time for Mr. Gilbert to come to Washington for the meeting as an alternate member of the executive committee.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee of the Federal Open Market Committee held on July 22 and August 3, 1942, were approved.

The statement was made that as of the close of business on August 5, 1942, the Federal Reserve Bank of New York had used \$113,346,000 of the \$200,000,000 authority granted at the meeting of the executive committee on August 3 to purchase securities for the System open market account and that, inasmuch as it appeared that the Bank might be

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called upon to purchase a substantial additional amount of securities, the members of the executive committee on August 6, 1942, agreed to increase the authority to the Federal Reserve Bank of New York to execute transactions in the System account by increasing from \$200,000,000 to \$400,000,000 the amount contained in clause (a) in paragraph 1 of the direction to the New York Bank approved at the meeting of the executive committee on August 3, 1942.

Upon motion duly made and seconded, and by unanimous vote, the action taken by the members of the executive committee to increase the authority of the Federal Reserve Bank of New York to effect transactions in the System account was approved, ratified, and confirmed.

Mr. Rouse made an oral report of conditions in the Government security market since the last meeting of the committee and of the transactions which had been carried out for the System account and reported daily to the members of the committee. He also discussed the causes of recent changes in excess reserves of member banks in New York City, and stated that with a call on war loan accounts in the amount of \$90,000,000 in New York yesterday the excess had been reduced to \$128,000,000, that additional calls by the Treasury during the week would result in a further substantial reduction, if not complete elimination, of excess reserves in New York, and that, in the absence of some other action, the maintenance of excess reserves in New York at recent levels would require the purchase of substantial amounts of securities for the System open market account.

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Following Mr. Rouse's report, the executive committee was informed of the action which the Board of Governors had taken to reduce reserve requirements of central reserve city member banks in New York and Chicago from the existing rate of 26 per cent of demand deposits to 24 per cent of such deposits. Chairman Eccles said that the reduction was made effective as of the opening of business on August 20, 1942, and would enable the central reserve city banks to make use of the excess reserves thus created in averaging their required reserves for the weekly period ending August 21.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from August 3 to August 17, 1942, inclusive, were approved, ratified, and confirmed.

Reference was made to the informal discussions by the members of the executive committee and the Board of Governors with representatives of the Treasury regarding the possibility of action by the Board to reduce reserve requirements of central reserve city member banks to 20 per cent of net demand deposits as a means of supplying additional funds to the money market. There was a discussion of the desirability, from the standpoint of its effect upon the open market policy of the System, of an announcement by the Board that it proposed to reduce reserve requirements of the central reserve city banks by 2 per cent in September and 2 per cent in October. There was also a discussion of what further action the System might be called upon to make in the form of reductions in reserve requirements, open market

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operations, or the establishment of reduced preferential or general discount rates, after the reserve requirements of central reserve city member banks had been reduced to 20 per cent. There was agreement that the major instruments that might be used for combatting inflationary developments, such as an adequate tax program, price control, and wage policies, were outside of the System's authority, and that the System could be most effective within the field of its authority by continuing to urge the adoption of a program which would effect the widest possible distribution of Government securities outside of the banks so as to reduce as much as possible the need for providing the banks of the country with additional reserve funds to enable them to purchase Government securities. The point was emphasized that reductions in reserve requirements could not be relied upon as the only means of furnishing funds to enable banks to purchase Government securities, that if this course were followed reserve requirements would be reduced in the course of the next year to the statutory minimums, and that then the System would still be faced with the necessity of providing funds through borrowings by banks or through open market operations or both. In view of this situation, there was a unanimous feeling that the System representatives, in their discussions with the Treasury over the next two or three months, should stress the necessity of adopting a program which would avoid as far as possible further reductions in reserve requirements of member banks and the adoption of a financing program which would bring about the widest

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possible distribution of Government securities outside the banks and in areas where Government expenditures were being made and which would hold to a minimum the amount of securities that the banks would be offered.

During the discussion above referred to, Mr. Smead, Chief of the Division of Bank Operations of the Board of Governors, was in attendance.

Chairman Eccles stated that he expected to leave for the West on the evening of August 20, and that in discussing with Under Secretary of the Treasury Bell the Treasury financing program for September and October he had told Mr. Bell that he would send him a memorandum setting forth a suggested program. Chairman Eccles also said that, at his request, Mr. Piser had prepared a memorandum under date of August 17, 1942, suggesting for consideration by the members of the executive committee a possible financing program for the months of September and October, and that the memorandum, copies of which had been furnished to those present before this meeting, expressed his (Chairman Eccles') views as to what the program should be.

A discussion of the memorandum disclosed certain differences on the part of Mr. Sproul and other members of the executive committee, which required further study, as to what the program should include. It was therefore understood that, after making such changes in the memorandum as he desired on the basis of the discussion at this meeting, Chairman Eccles would send the memorandum to Mr. Bell as an expression

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of his own views, and that the other members of the executive committee and of the Board of Governors would continue to study the matter for the purpose of further discussions of the program with representatives of the Treasury.

Reference was then made to the question of the authority to be given to the New York Bank to execute transactions in the System account between now and another meeting of the executive committee, and there was unanimous agreement that substantially the existing authority of the Bank should be renewed.

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, of maintaining an adequate supply of funds in the market, or of granting temporary accommodation to the Treasury; provided (a) that the total amount of securities in the account at the close of August 18, 1942, shall not be increased or decreased by more than \$250,000,000 (exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury), (b) that the amount of such short-term certificates in the account at any one time shall not exceed \$300,000,000, and (c) that this paragraph shall not limit the amount of Treasury bills

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purchased pursuant to the direction of the Federal Open Market Committee issued under date of April 30, 1942, or the redemption of such bills; and

(2) 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.

Question was raised as to when the next meeting of the Federal Open Market Committee should be held, and Mr. Sproul stated that the Conference of Presidents of the Federal Reserve Banks expected to meet in September. It was understood that Mr. Sproul would ascertain whether it would be satisfactory to the Presidents to meet just before or just after a meeting of the Federal Open Market Committee during the week of September 28, 1942.

Thereupon the meeting adjourned.

Chester Morrie
Secretary.

Approved:

W. B. Sproul
Chairman.