

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 Monday, November 24, 1941, at 2:30 p.m.

PRESENT: Mr. Sproul, Vice Chairman
Mr. Ransom
Mr. McKee
Mr. Leach
Mr. Draper (Alternate for Mr. Eccles)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. Wyatt, General Counsel
Mr. Rouse, Manager of the System Open
Market Account
Mr. Piser, Senior Economist in the
Division of Research and Statistics
of the Board of Governors

Mr. Sproul stated that on October 29, 1941, the members of the executive committee of the Federal Open Market Committee met with representatives of the Treasury for the purpose of discussing several questions which had come up in connection with the future policy of the Treasury with respect to "rights" and other aspects of Treasury financing; that as a result of discussions at that time Mr. Bell, Under Secretary of the Treasury, Mr. Haas, Director of the Division of Research and Statistics of the Treasury Department, and Mr. Morris, Assistant to the Secretary of the Treasury, and Messrs. Eccles, Sproul, and Rouse for the executive committee of the Federal Open Market Committee, were constituted a subcommittee to study the problem of future policy with respect to Treasury financing, that the Federal Reserve members and the Treasury members

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of the subcommittee had prepared drafts of memoranda on the subject of Treasury financing which were presented and discussed at a meeting of the subcommittee at the Federal Reserve Board on November 7, 1941. These memoranda were edited in the light of that discussion and presented at a meeting at the Treasury on November 17, 1941. The latter meeting was attended by members of the subcommittee and by other members of the Federal Reserve Board, its staff, and the Treasury staff. Following that meeting Mr. Bell prepared a draft of memorandum for submission to the Secretary of the Treasury which he sent to Mr. Ransom and Mr. Sproul with a note dated November 19, 1941, in which he requested that such changes be made in the draft of memorandum as might be desired and that the draft be returned to him by the morning of November 22 (subsequently changed to November 25). This morning Mr. Ransom and Mr. Sproul received from Mr. Bell three revised pages of the earlier draft of his memorandum in which certain changes had been incorporated.

Mr. Sproul made the further statement that the presentation of the matter to the Secretary of the Treasury in the manner outlined in Mr. Bell's memorandum was not wholly satisfactory for the reason that the views of the Federal Reserve members of the joint subcommittee had been stated in their memorandum as an integrated whole and not as isolated answers to separate questions, that it was believed that the committee would want its position stated more clearly to the Secretary of the Treasury than would be possible by suggesting changes in Mr. Bell's

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memorandum, and that this meeting had been called to determine what action should be taken for that purpose and to consider whether there were other suggestions that the committee might wish to offer for consideration by the Treasury.

During the discussion which ensued Mr. Ransom referred to a memorandum, prepared by the Treasury and distributed at the conference on November 17 under the title "Report on Proposed Changes in Financing Procedures", as setting forth the views of the Treasury's staff on the proposed changes.

Mr. Ransom said that he had asked Mr. Goldenweiser, who had participated in informal discussions of Mr. Bell's memorandum which had taken place prior to this meeting, to prepare a draft of memorandum that might be sent to Mr. Bell. The draft of memorandum prepared by Mr. Goldenweiser in response to this request was read and there was a discussion of the additional suggestions contained therein that study be given to (1) an offering of an open-end or tap issue specially directed at nonbank investors, with limitations on immediate negotiability and provision for interest rates, in case of redemption prior to maturity, being graduated in accordance with the length of time the security was held, and (2) the prohibition of trading in United States Government securities prior to their issuance.

Mr. Sproul stated that it would be his suggestion that the committee send a letter to Mr. Bell which would state that the executive

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committee was in agreement with the first five proposals stated in Mr. Bell's memorandum, but that the committee felt that the suggestions of the Federal Reserve representatives should be considered as a whole rather than as isolated suggestions in response to separate questions; that, therefore, the committee would like to have the memorandum submitted by the Federal Reserve representatives at the meeting on November 17 presented to the Secretary of the Treasury as a statement of the committee's views; and that there were other proposals that should be considered in developing a finance program and the committee would like to have further meetings with representatives of the Treasury for the purpose of discussing these proposals.

In connection with Mr. Sproul's suggestion, it was agreed that the memorandum presented by the Federal Reserve representatives at the meeting on November 17 should be rearranged with the summary at the beginning rather than the end, and that certain other slight changes should be made.

Mr. Ransom read a transcript of notes of a telephone conversation which he had had on November 22 with Chairman Eccles, who was in Ogden, Utah, during which the latter expressed his views with respect to the matter under discussion, and in connection with the comment contained in the first paragraph of the transcript Mr. Sproul stated that the memorandum presented at the meeting at the Treasury on November 17, 1941, had been changed by the Federal Reserve representatives to (1)

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eliminate the alternative suggestion in connection with a long-term market issue that this might be an issue of 2-1/2 per cent bonds with a 1971-1976 maturity, and (2) provide for the redemption of the suggested non-negotiable bonds on six months' notice instead of one year. Mr. Ransom also read a note that he had received from the office of Mr. Szymczak (who was out of town) commenting on Mr. Bell's memorandum.

Copies of the documents referred to or read at this meeting have been placed in the files of the Federal Open Market Committee.

At the conclusion of the discussion, upon motion duly made and seconded, it was agreed unanimously that Mr. Sproul would prepare a draft of a letter to Mr. Bell along the lines that had been suggested, for Mr. Sproul's signature as Vice Chairman of the executive committee of the Federal Open Market Committee.

Secretary's note: The letter was prepared and sent to Mr. Bell in accordance with this action in the following form under date of November 24, 1941:

"The executive committee of the Federal Open Market Committee met this afternoon to discuss your memorandum on Treasury financing, which you sent to its individual members under cover of your letter of November 19, and also discussed the memorandum on the same subject prepared by Messrs. Eccles, Rouse and me, which we have studied with you and some of your associates during the past three weeks.

"The executive committee finds itself in agreement with all of the individual items in your memorandum which you have recommended to the Secretary of the Treasury for immediate action, that is, before the December financing.

"With respect to the items which you stated Treasury representatives would like more time to study, the executive committee shared the views heretofore expressed by

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"Messrs. Eccles, Rouse and me that certain of these items should now be included in the program of immediate action. These are:

1. The Treasury should offer a non-negotiable tap issue (further extending the series of tap issues which now includes Series E, F, and G of Defense Savings Bonds) with a 2-1/2 per cent coupon. Such an issue might run for 20 or 25 years from date of purchase, be redeemable at face value with an interest adjustment (as with Series G bonds) on six months' notice after bond has been held for one year, and be eligible for purchase in amounts up to \$1,000,000 in total or in any one year by individuals, corporations, et cetera, including commercial banking institutions which would be permitted to subscribe on some basis related to the amount of time or savings deposits held.
2. The Treasury should reserve the right to accept over-subscriptions up to 25 per cent of the approximate amount of offerings of securities.
3. The total amount of Treasury bills outstanding should presently be increased to an aggregate of \$2,600,000,000.
4. Consideration should regularly be given to issuing additional blocks of Treasury bills to mature in the three or four days following the quarterly income tax payment dates.

In order that these proposals may be understood and properly appraised the executive committee also believes it to be important and necessary that they be considered as part of a whole program rather than as isolated recommendations on individual topics.

"The executive committee voted therefore to approve the memorandum (prepared by Messrs. Eccles, Rouse and Sproul) setting forth these proposals and directed me to transmit a copy of it to you with the request that you present it to the Secretary when you submit your memorandum to him. A copy of this memorandum in the form approved by the executive committee and dated November 24, 1941, is enclosed.

"There are of course other proposals with respect to Treasury financing which members of the executive committee have suggested from time to time or would like to have explored. We are not submitting these proposals now, however,

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"because they have not been part of our recent discussions with you. We assume that the further development of our joint consideration of Treasury financing problems will provide the opportunity for considering such further proposals."

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 September 27, 1941, were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account during the period from September 27 to November 22, 1941, both dates inclusive, were approved, ratified and confirmed.

All of the members present concurred in the suggestion that there was no need for any change in the existing instructions to the New York Bank with respect to the execution of transactions for the System open market account and that the outstanding instructions 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 shifts of securities in the account (which may be accomplished when desirable through replacement of maturing securities) as may be necessary in the practical administration of the account or for the purpose of exercising an influence toward maintaining orderly market conditions, up to an aggregate of \$200,000,000 of purchases and a like amount of sales or redemptions, provided that in making such shifts the total amount of bonds held in the account be not increased or decreased by more than \$100,000,000;

(2) To make such outright purchases or sales for the System account as may be necessary for the purpose of exercising an influence


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toward maintaining orderly market conditions, provided that the total amount of securities in the account be not increased or decreased through operations under this paragraph by more than \$100,000,000; 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 shifts or such purchases or sales (which would include authority to allow maturities to run off without replacement) 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.

Thereupon the meeting adjourned.


Secretary.

Approved:


Vice Chairman.