

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 Friday, May 8, 1942, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Alfred H. Williams
Mr. Gilbert
Mr. Young
Mr. Leedy

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. John H. Williams, Associate Economist
Mr. Rouse, Manager of the System Open
Market Account
Mr. Piser, Chief, Government Securities
Section, Division of Research and Sta-
tistics of the Board of Governors
Mr. Berntson, Clerk in the Office of the
Secretary of the Board of Governors

Messrs. Paddock, Fleming, McLarin, and Day,
alternate members of the Federal Open Mar-
ket Committee

Messrs. Leach and Peyton, Presidents of the
Federal Reserve Banks of Richmond and Min-
neapolis, respectively

Mr. Attebery, Vice President of the Federal
Reserve Bank of St. Louis

Mr. Sienkiewicz, Secretary of the Presidents'
Conference

Upon motion duly made and seconded,
and by unanimous vote, Mr. Evans was se-
lected to serve, until the selection of

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his successor at the first meeting of the Federal Open Market Committee after March 1, 1943, as the third alternate for Messrs. Eccles, Szymczak and Draper as members of the executive committee of the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on February 28 and March 2, 1942, were approved.

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 minutes of the meetings of the executive committee held on February 28 and March 2, 1942, were approved, ratified, and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period from March 2 to May 7, 1942, inclusive, as reported by Mr. Rouse at the meeting of the executive committee just before this meeting at which all members of the full Committee were present, were approved, ratified, and confirmed.

Chairman Eccles referred to the discussions had with representatives of the Treasury on the subject of Treasury financing since the last meeting of the Federal Open Market Committee, and particularly to the agreement reached at the meeting at the Treasury on March 20, 1942, when, as a part of a temporary program of war financing, the members of the executive committee agreed (1) "that the Federal Reserve System, acting through the Federal Open Market Committee, would support the Treasury bill market at approximately the present rates—that is, we are to use

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our best judgment with respect to this market and with regard for its relation to the general financing program, which might include beginning our support if and when the rate on Treasury bills reaches $1/4$ of 1%, and supporting with increasing strength as the rate approaches $3/8$ of 1%", and (2) "The general market to be maintained on about the present curve of rates, but this does not mean special support for issues which may be out of line and specifically does not mean that we must hold the 2's of 1951-55 or the 2- $1/2$'s of 1967-72, or any other issue, at par, or any other fixed price". Chairman Eccles also reviewed the discussions with representatives of the Treasury subsequent to March 20 which resulted in the submission to the Treasury on April 29 by the members of the executive committee of a revised memorandum of recommendations as to the general principles and methods to be adopted in connection with Treasury financing and specific suggestions for May financing operations, the adoption of the May financing program as announced on April 30, 1942, and the issuance on that date by the members of the Federal Open Market Committee, following agreement by telephone by all of the members of the Committee who had not participated in the discussions, of a direction to the 12 Federal Reserve Banks to purchase for the System open market account all Treasury bills that might be offered to such Banks on a discount basis at the rate of $3/8$ per cent per annum.

During the discussion by Chairman Eccles, Mr. Thurston entered the meeting.

The memorandum of April 29, which had been prepared largely to

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meet objections made at the Treasury to the program outlined in the memorandum submitted to the Treasury under date of January 28, 1942, was read. In explanation of the direction to the Federal Reserve Banks to purchase bills, Chairman Eccles said that the Treasury's original approach to the May financing had been one of increasing excess reserves of banks, preferably through a reduction in reserve requirements, and the use of market issues, relying on the pressure of excess funds in the market to effect distribution of the issues. When this procedure was opposed by the Federal Reserve representatives, the suggestion was made by the Treasury representatives that the Federal Reserve Banks post a buying rate of $3/8$ per cent for bills, and, when this was agreed to, the Treasury concurred in the program suggested by the members of the executive committee in the memorandum of April 29 above referred to which was designed to attract as many funds as possible from sources other than banks. Chairman Eccles concluded with the statement that, if an effective organization were set up in the various Federal Reserve districts for the distribution of Government securities, a great deal of progress would have been made toward establishing a program for war financing.

Following a discussion of various points commented on during Chairman Eccles' statement, upon motion duly made and seconded, and by unanimous vote, the agreement reached by the members of the executive committee with the Treasury as a part of the temporary program of war financing discussed and agreed upon at the meeting at the Treasury on March 20, 1942, was approved, ratified, and confirmed.

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The members of the Committee were in complete agreement that, in accordance with the understanding reached with representatives of the Treasury on April 30, 1942, the direction to the Federal Reserve Banks to purchase bills at a rate of $3/8$ per cent per annum should be continued, and, upon motion duly made and seconded, it was voted unanimously to approve, ratify, confirm, and continue in effect, until otherwise directed, the direction issued on April 30 to the 12 Federal Reserve Banks to purchase for the System open market account all Treasury bills that might be offered to such Banks on a discount basis at the rate of $3/8$ per cent per annum.

The above action was followed by a discussion of the future open market policy of the Committee and the instructions to be issued to the executive committee to implement that policy. Mr. Sproul suggested that it would be desirable to amend the resolution adopted at the last meeting of the Committee so as to recognize the present authority of the Federal Reserve Banks to purchase and sell Government securities directly from and to the Treasury, and, as a means of relating the resolution more closely to existing conditions, to provide for such transactions as might be necessary for the purpose of maintaining about the present general level of prices and yields of Government securities or for the purpose of maintaining an adequate supply of funds in the market. In connection with the first point, Mr. Sproul stated that the Treasury regulations which had prohibited the sale by the Treasury of bills directly to the Federal Reserve Banks had been revised to permit such sales.

Mr. Rouse stated that from time to time some of the Federal Reserve Banks might find it necessary to purchase Treasury bills for cash

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delivery, and said that there was a question of accounting procedure involved, which might make it necessary for the Banks to carry such purchases temporarily in their investment accounts, with the understanding that they would be transferred to the System account on the next business day.

This point was discussed, and it was agreed unanimously that the procedure should be left to the Manager of the System account and the staff of the Board of Governors to work out.

A draft of resolution incorporating the suggestions made by Mr. Sproul was then read, and the opinion was concurred in that it should be further revised so as to make it clear that the resolution imposed no limitation on the amount of bills purchased pursuant to the direction issued to the 12 Federal Reserve Banks, but that it would apply to other bills purchased for the System account by the New York Bank as agent to accomplish the purposes of the resolution.

Mr. Ransom inquired what the responsibility of the executive committee was for the bill purchases made by the Federal Reserve Banks in accordance with the direction of the full Committee, and the response was made that the authority for such purchases was given to the Federal Reserve Banks directly by the full Committee and that for that reason the direction by the full Committee to the executive committee should relate to open market transactions other than the purchase of bills pursuant to that authority.

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Thereupon, upon motion duly made and seconded, the following resolution 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, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary for the purpose of maintaining about the present general level of prices and yields of Government securities or for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date (other than Treasury bills purchased pursuant to the direction of the Federal Open Market Committee issued under date of April 30, 1942) shall not be increased or decreased by more than \$500,000,000.

Thereupon, the meeting adjourned, with the understanding that the Presidents and the Board of Governors would meet immediately to discuss the problem of an organization to further the distribution of Government securities, other than war savings bonds.

Roberta M. M. M.

Secretary.

Approved:

W. H. H.

Chairman.