

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 Monday, September 28, 1942, at 10:15 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. Goldenweiser, Economist
Mr. John H. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open
Market Account
Mr. Thurston, Special Assistant to the
Chairman of the Board of Governors
Mr. Smead, Chief of the Division of Bank
Operations of the Board of Governors
Mr. Thomas, Assistant Director of the
Division of Research and Statistics
of the Board of Governors
Mr. Piser, Chief, Government Securities
Section, Division of Research and
Statistics of the Board of Governors
Mr. Berntson, Clerk in the Office of the
Secretary of the Board of Governors

Messrs. Paddock, Fleming, McLarin, Davis,
and Day, alternate members of the Federal
Open Market Committee

Messrs. Leach and Peyton, Presidents of the
Federal Reserve Banks of Richmond and
Minneapolis, respectively

Mr. Sienkiewicz, Secretary of the Presidents'
Conference

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

Upon motion duly made and seconded,
and by unanimous vote, the minutes of the
meeting of the Federal Open Market Commit-
tee held on August 3, 1942, were approved.

Mr. Rouse distributed copies of a report prepared at the Federal Reserve Bank of New York, under date of September 28, 1942, covering open market operations in the System account during the period from August 3 to September 23, 1942, inclusive, and he discussed briefly the principal items in the report. He also presented a supplementary report prepared at the New York Bank covering transactions in the System account during the period from September 24 to September 26, 1942, inclusive, in which it was stated that the total amount of securities held in the System account had been increased to \$3,488,725,000 on the latter date.

Upon motion duly made and seconded,
and by unanimous vote, the transactions in
the System account during the period from
August 3 to September 26, 1942, inclusive,
were approved, ratified, and confirmed.

During the course of the discussion of Mr. Rouse's report, Mr. McKee stated that he would like to hold in reserve for later consideration the general question of policy which he had brought up at previous meetings with respect to the treatment of premiums on securities held in the System open market account.

Mr. Rouse stated that at the end of the calendar year 1941, when earnings of the Banks, after dividends, were only slightly above expenses, one of the Federal Reserve Banks had shown a loss for the year, and it had

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been suggested that, in order to avoid a situation of this kind in the future, a method of allocation of earnings from the System account be worked out so that when the earnings of the System as a whole were sufficient to cover expenses and dividends it would not be necessary for any Bank to show a loss. Mr. Rouse said that he had discussed the matter with Mr. Smead and that they would suggest that the present procedure, calling for quarterly allocations of securities held in the System account, be modified to the extent of providing for two additional allocations, in the last quarter of each year, on November 1 and December 1, on the basis prescribed by the existing procedure.

Upon motion duly made and seconded, and by unanimous vote, the proposed change in the existing procedure of allocation was approved, with the understanding that it would be applied as of November 1 and December 1, 1942, and annually thereafter in the same manner.

Mr. Rouse then said that, in connection with the directions issued by the Federal Open Market Committee to the Federal Reserve Banks to purchase all Treasury bills offered to such Banks on a discount basis at the rate of $3/8$ per cent per annum, the Federal Reserve Bank of New York, as agent for the System account, had advised the other Federal Reserve Banks that such purchases would be for delivery on the next business day except in unusual cases, it being understood that in the case of emergency, in order to provide funds to the selling bank, the bills would be purchased for immediate delivery. A number of banks, Mr. Rouse said, that had repurchased bills previously sold to a Federal Reserve Bank on

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that basis had felt that they should be able to repurchase for immediate delivery in order that they might have the benefit of the earnings on the bills for the one day. The Federal Reserve Bank of New York had taken the position that the desire of the selling banks for additional earnings did not constitute an emergency and that delivery on the day succeeding the resale, which was the usual practice, was justified. Mr. Rouse made the further statement that some of the Federal Reserve Banks felt that, when requested by the original seller, bills held under an option to repurchase should be sold for immediate delivery, that if such a course were decided upon it could be handled in the System account only if the Federal Reserve Bank of New York maintained a night accounting force, but that the problem might be met by authorizing the Federal Reserve Banks to hold in their own accounts bills purchased under an option to repurchase. In the ensuing discussion, it was stated that the arrangement suggested by Mr. Rouse could be effected by an amendment of the directions issued by the Federal Open Market Committee to the Federal Reserve Banks under dates of April 30 and August 3, 1942, and that an amendment of the Committee's regulation relating to open market operations would not be necessary. In response to an inquiry, Mr. Dreibelbis agreed with this view.

The suggestion was then considered in the light of the questions (1) whether such an arrangement would be subject to possible abuse on the part of banks and (2) the extent to which the arrangement would be in line with the effort of the System to obtain a wider distribution of bills. Several of the Presidents said that they had had requests for immediate

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delivery of repurchased bills and that, in some cases, the Banks had objected to one-day delivery. The suggestion was made that the objective sought might be accomplished by advising the banks that all resales of bills would be on one-day delivery, so as to remove any possible misunderstanding as to future transactions. Some of the members of the Committee felt that this would be a satisfactory solution of the matter, that, if arrangements were made for immediate delivery, all that would be accomplished would be to give the holder the additional income for one or two days, and that, if a concession were made on bills, the same concession might be asked in the future for certificates and possibly other securities. Other members took the position that the broad purpose was to obtain a wider distribution of bills on the basis of the bills being equivalent to cash, and that for that reason an arrangement should be adopted which would permit immediate delivery on resale.

At the conclusion of the discussion, Mr. Alfred H. Williams moved that the directions issued by the Federal Open Market Committee under dates of April 30 and August 3, 1942, be amended to read as follows:

Until otherwise directed by the Federal Open Market Committee, the twelve Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of $3/8$ per cent per annum, any such purchases, if desired by the seller, to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased outright are to be purchased for the System open market account. All bills purchased under option to repurchase are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all such purchases are to be made to the manager of the System open market account.

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The Federal Reserve Bank of New York, as agent for the System account, is directed to transfer to the respective Federal Reserve Banks as promptly as convenient all unmatured bills held in the System account which were purchased by such Banks for System account under an option retained by the seller to repurchase and such bills shall be received and held by such Federal Reserve Banks subject to the first paragraph of this direction.

Mr. Williams' motion having been duly seconded was put by the chair and carried, Messrs. Eccles, Ransom, Draper, Evans, Williams, Gilbert, Young, and Leedy voting "Yes" and Messrs. Sproul, Szymczak, and McKee voting "No".

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 July 22 and August 3 and 18, 1942, were approved, ratified, and confirmed.

For the information of the Presidents of the Reserve Banks who were not members of the executive committee of the Federal Open Market Committee, Mr. Sproul reviewed the discussions had since the last meeting of the full Committee with representatives of the Treasury with respect to September Treasury financing and the recently announced Series C tax notes.

Following Mr. Sproul's statement, Mr. Ransom discussed briefly the considerations which led to action by the Board to reduce reserve requirements of member banks in central reserve cities effective August 20 and September 13, 1942.

At this point, Mr. Clayton, Assistant to Chairman Eccles, joined the meeting.

Statements were then made by Mr. Goldenweiser and Mr. John H. Williams with respect to the large volume of future Treasury financing,

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the effect of such financing and increased business activity on member bank reserves, and the steps that might be taken to meet this situation. Copies of these statements have been placed in the files of the Federal Open Market Committee.

The meeting then recessed and reconvened at 2:15 p.m. with the same attendance as at the end of the morning session except that Messrs. Clayton and Berntson were not present.

There was a discussion of some of the questions raised by Messrs. Goldenweiser and Williams in their statements, particularly with respect to changes in reserve requirements and the part that changes in the discount rate and borrowings by member banks might play in the System credit policies. There appeared to be no disagreement with the thought that there was nothing in the history and experience of the Federal Reserve System that would suggest that the System should abandon any of its powers in the field of credit control or should rely upon any single power to the exclusion of the others, but that it should use any or all of its powers as circumstances might require. There was agreement that it would be logical for the System to continue its present policy with respect to purchases of Treasury bills at a $3/8$ per cent rate, or at a $1/2$ per cent rate if that should be agreed to by the Treasury, and at the same time either to reduce to $1/2$ per cent the discount rate in effect at the Federal Reserve Banks on loans and advances to member banks under sections 13 and 13a of the Federal Reserve Act or to establish a preferential rate of $1/2$ per cent on advances collateralized by Government securities with maturities of one year or less.

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For the information of the Federal Open Market Committee in the formulation of its open market policies, there was a general informal discussion of the relative merits of a reduction in the general discount rate of the Reserve Banks to 1/2 per cent and of the establishment of a preferential rate of 1/2 per cent, on advances collateralized by Government securities with maturities of one year or less, and what the possible attitude of the Reserve Banks and the Board of Governors might be with respect to the establishment by the Reserve Banks of reduced discount rates. A majority of the Presidents indicated that they would favor a preferential rate of 1/2 per cent. All of the Presidents stated that, if desired, they would be glad to present to their directors the question of a reduction in the discount rate or the establishment of a preferential rate as a matter of System policy. In the discussion of this matter, it was made clear that a reduction in the general discount rate or the establishment of a preferential rate on Government securities would apply to advances to both member and nonmember banks secured by direct obligations of the United States.

It was then suggested that it would be helpful to the members of the Federal Open Market Committee in the determination of its open market policy if general agreements could be reached today by those present on the following matters:

1. What should be done to bring about a wider distribution of bills.
2. Whether the Federal Reserve Banks should reduce their general discount rate to 1/2 per cent or establish a preferential rate of 1/2 per cent.

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3. What should be done with respect to reductions in reserve requirements.
4. What the open market policy of the System should be for the immediate future.
5. What could be done to increase purchases of Government securities by nonbank investors.
6. October financing.

In a discussion of the first of the six items, it was suggested that a wider distribution of bills might be obtained, and a more effective use of existing reserves achieved, (1) by the issuance by the Treasury each week of a stated amount of bills, in addition to the regular offering, at a fixed rate for allotment in some limited amount to each bank that desired to purchase them in that way, or (2) by the System making Treasury bills available for purchase at the $3/8$ per cent rate up to a fixed amount by anyone desiring such bills. It was felt by some of those present that the first suggestion would be extremely helpful in broadening the distribution of bills, but it was stated that according to information received from the Treasury it was obliged under present law to issue bills on a competitive basis, and, so far as the members of the Federal Open Market Committee knew, no way of meeting that obstacle had yet been found.

There was some discussion of the desirability of Treasury certificates as a medium for investment of short-term funds of the smaller banks and of the desirability of the Treasury issuing a security with a four-month maturity to meet this demand of country banks. The objection was made, however, that it would be simpler for the Treasury to

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increase the volume of bills and for the System to attempt to get a wider distribution rather than to add another short-term issue to the existing variety of securities now outstanding. The suggestion was offered that the preferable method would be to use one-year certificates in increased amounts which would provide the necessary volume for bank investment, with a higher yield, and, combined with a reduction in the discount rate, would afford a means to banks by which they readily could make temporary adjustments in their positions.

During this discussion, Mr. Clayton rejoined the meeting.

Reverting to the question of the discount rate, there was an informal discussion of the attitude of the members of the Board of Governors toward a reduction in the general rate or the establishment of a preferential rate of 1/2 per cent. It was understood that the Board would give further consideration to this matter and that the Federal Reserve Banks would be advised at an early date of its attitude with respect to it.

On the question of a further reduction in reserve requirements of member banks, Chairman Eccles expressed the opinion that, if a further reduction of 2 per cent in the reserve requirements of member banks in central reserve cities were made, the System should resist as long as possible any further reductions in requirements, on the theory that for the time being at least any further additions to the reserves of member banks should be made through open market operations or member bank borrowings.

Mr. McKee stated that in his opinion, because of larger investments, reduced reserve balances, and large interbank balances, member

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banks in central reserve cities should have higher required reserves than banks in reserve cities.

The problem of changes in reserve requirements was discussed in the light of these opinions and the expectation that, if reductions in reserve requirements alone were relied on to furnish needed bank reserves, required reserves would almost reach the vanishing point by the end of next year. During the discussion, a majority of the Presidents indicated a feeling that a further reduction of 2 per cent in reserve requirements of central reserve city banks was expected but that such action would not necessarily be regarded as an indication that still further reductions were to be expected. Most of the Presidents were of the opinion that the System would be justified in taking the position that, after another 2 per cent reduction was made in reserve requirements of central reserve city banks, no further reduction should be made for the time being, with the understanding that needed reserves would be supplied through open market operations. While this discussion was in progress, copies were distributed of a memorandum prepared by Mr. Horbett, Assistant Chief of the Division of Bank Operations, which contained a current analysis of the reserve position of member banks.

Chairman Eccles stated that the members of the executive committee had been invited to a conference at the Treasury tomorrow at 11:00 a.m. for the purpose of discussing Treasury financing, and that, therefore, he would suggest that the members of the Federal Open Market Committee and the other Presidents of the Federal Reserve Banks meet again tomorrow to consider that subject.

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It was agreed that, in view of the discussions at this meeting of the Federal Open Market Committee, substantially larger purchases of securities for the System open market account undoubtedly would be necessary during the period before another meeting of the full Committee, but that, inasmuch as purchases of Treasury bills at the buying rate were not limited by the resolution adopted at the last meeting of the Committee, the renewal of the authority contained in that resolution would meet the situation for the time being, it being understood that authority for additional purchases of Government securities could be granted upon the telephonic, telegraphic, or written approval of a majority of the members of the Committee should that be found to be desirable.

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 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 for the purpose of maintaining an adequate supply of funds in the market, or for the purpose of granting temporary accommodation to the Treasury; 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 directions of the Federal Open Market Committee issued under dates of April 30, August 3, and September 28, 1942) shall not be increased or decreased by more than \$1,000,000,000.

The meeting then recessed with the understanding that it would reconvene at 9:00 o'clock tomorrow morning, September 29, for the

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consideration of problems relating to Treasury financing.

Chester Nowie
Secretary.

Approved: W. C. ...
Chairman.