The meeting of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, September 29, 1942, at 9:15 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. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open Market Account
Mr. Clayton, Assistant to the Chairman of the Board of Governors
Mr. Piser, Chief, Government Securities Section, Division of Research and Statistics of the Board of Governors

Messrs. 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

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

Chairman Eccles referred to a letter addressed by him to the Secretary of the Treasury under date of August 20, 1942, on the subject of Treasury financing. He reviewed and discussed the suggestions contained therein with respect to the financing to be done in October. He stated that, in addition to the $400,000,000 of additional funds that would result from the continued weekly offering of $400,000,000 of bills, with an increase in the weekly issue to $450,000,000 beginning October 21, and the approximate $500,000,000 that could be obtained from additional sales of the Series C tax note, he would favor the offering in October of a 2 per cent bond, which would be kept open for perhaps as long as a week with the understanding that all offerings would be taken, and a 2-1/2 per cent bond on a coupon basis which would not be available for bank subscription.

A memorandum of suggestions with respect to the forthcoming financing, prepared by Mr. Piser under date of September 28, 1942, was read.

Mr. Sproul stated that in his opinion the Treasury financing during October should include, (1) an increase in the weekly offering of bills to $450,000,000 on October 21, (2) an issue of $4,000,000,000 to include a 2-1/4 per cent bond and a 1-5/8 per cent note or a 1-3/4 per cent fixed-maturity bond, this offering not to specify the amount of each issue so that allotments would be in proportion to the total amount of subscriptions received, to be kept open four or five days, and to have split payment dates in order to avoid unnecessary movements of funds into and out of Treasury accounts, and (3) an offering of one-year certificates of indebtedness late in the month to refund the $1,500,000,000 of certificates maturing on November 1, and perhaps to obtain $500,000,000 in cash. As between a 2 per cent and 2-1/4 per cent bond, Mr. Sproul expressed the view that a 2-1/4 per cent bond combined with a long note, or a short bond, would not only be the best market combination but that, of equal importance, it would provide a security which would attract the funds of banks outside the money centers which we want to get into use and the funds of some nonbank investors who, for one reason or another, do not wish to buy registered securities such as the 2-1/2 per cent bonds of 1962-67.

Reasons for the programs suggested by Messrs. Eccles and Sproul were discussed, and Mr. McKee suggested that consideration might also be given to a 5-1/2-year obligation which would not be called a bond. Mr. Szymczak raised the question whether a third possible issue might be in the form of a 5-year note.

Following comments by the Presidents with respect to the types of issue that would appear to be preferred in the respective Federal Reserve districts, Chairman Eccles summarized the discussion in substantially the following statement: There would seem to be no disagreement on the part of the representatives of the Federal Reserve System if the Treasury should decide to put out a 1-5/8 per cent 5-year note. The disagreement is primarily on the point whether a 2 or a 2-1/4 per cent market issue should be offered. Some of the members of the Federal Open Market Committee and Presidents feel that securities designed for banks should not have a maturity beyond 10 years, while others feel that there is no objection to exceeding that period to provide an investment for the smaller banks with relatively large amounts of time or savings deposits. A majority opinion would favor providing for banks with savings deposits a 2-1/2 per cent security in some form, such as the Series G bonds or the 62-67s, up to some stated amount not to exceed the amount of a bank's savings deposits. There seems to be little support for opening up the 62-67s before November since it is believed that funds of that type have not had time since the last offering to accumulate in sufficient amounts to assure another successful offering, and the preference would be for a 1-5/8 per cent note. If the 62-67s were reopened, the majority opinion was that the issue might well be changed to a coupon bond for the purpose of increasing the demand.

The meeting then recessed to permit the members of the executive committee to attend the conference on Treasury financing at the Treasury, and reconvened at 12:20 p.m. with the same attendance as at the earlier session except that Messrs. Goldenweiser and Rouse were not present and Mr. Thurston, Special Assistant to the Chairman of the Board of Governors, was in attendance.

Chairman Eccles reviewed briefly the discussions at the meeting at the Treasury, stating that the members of the executive committee had stated their respective views, that it developed during the discussion that members of the Treasury staff had recommended a 2 per cent bond and a 1 per cent note for the October financing, but that no decisions had been reached. It was agreed, he said, that members of the Treasury staff would meet with Washington members of the Federal Open Market Committee for a further discussion tomorrow and that the members of the executive committee would go to the Treasury on Friday at 11:00 a.m. for another meeting with the Secretary of the Treasury.

Following his report, Chairman Eccles stated that, if it should be determined that the Treasury was without legal authority to issue a stated amount of bills each week at a fixed rate in addition to the regular offering, he would request the Federal Open Market Committee at its next meeting to consider and act on the suggestion that bills held in the System account be made available at a rate of 3/8 per cent to anyone desiring to purchase them.

Mr. McKee suggested that, as a means of making available to the members of the executive committee of the Federal Open Market Committee, in connection with discussions of Treasury financing, information and views on that subject from the various Federal Reserve districts, the Presidents designate alternates to participate in such discussions in the absence of the Presidents, and that, if that were not feasible, arrangements be made to request the comments and suggestions of the Presidents to reach the members of the executive committee prior to such discussions. It was agreed that it might not be feasible to have representatives of all of the Banks present at the discussions of the members of the executive committee on Treasury financing, but that arrangements might be made to have letter or wire advice from the Banks whenever time permitted.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.