

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, January 25, 1943, 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. Wyatt, General Counsel
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. Thurston, Special 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
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 Committee held on
December 14, 1942, were approved.

Upon motion duly made and seconded, and
by unanimous vote, the actions of the execu-
tive committee of the Federal Open Market
Committee as set forth in the minutes of the
meeting of the executive committee held on
December 14, 1942, were approved, ratified,
and confirmed.

Mr. Rouse read a report prepared at the Federal Reserve Bank
of New York of open market operations conducted during the period
from December 14, 1942, to January 20, 1943, inclusive. He also made
a supplemental report covering the transactions conducted for the
System open market account during the period from January 20 to 23,
1943, inclusive. Copies of Mr. Rouse's reports have been placed in
the files of the Federal Open Market Committee.

Upon motion duly made and seconded, and
by unanimous vote, the transactions in the
System account during the period from Decem-
ber 14, 1942, to January 23, 1943, inclusive,
were approved, ratified, and confirmed.

Under date of December 22, 1942, the Board's examiner in
charge submitted to Mr. Morrill, as Secretary of the Federal Open Mar-
ket Committee, a copy of a report of examination of the System account
made as of the close of business on October 3, 1942, by the Board's
examiners as part of the regular examination of the Federal Reserve
Bank of New York, and copies of this report were sent to the members

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of the Federal Open Market Committee on December 29, 1942. The report contained no criticisms or recommendations.

Upon motion duly made and seconded, and by unanimous vote, the report was received and ordered filed.

Chairman Eccles stated that the Washington members of the Federal Open Market Committee would like to suggest that the representative members of the Committee bring the economists from their respective Banks to future meetings of the Committee, and that an arrangement be adopted under which one or two of the economists would discuss business and credit conditions at each of these meetings. It was felt, he said, that such a procedure would bring further aid to the Committee in its work, and would stimulate the interest of the economists and of the economic and research staffs of the Federal Reserve Banks. It would be understood also, Chairman Eccles said, that a President who was not a member of the Committee would be at liberty to have the economist from his Bank accompany him to the meetings which he might attend whenever he believed it to be desirable and when the hotel and transportation situation made it appropriate. All of the Presidents indicated agreement that such a procedure would be a desirable one.

Upon motion duly made and seconded, and by unanimous vote, approval was given to the suggestion that the representative members of the Committee arrange to have the economists from their respective Banks attend future meetings of the Committee and that the other Presidents be invited to bring the economists from their Banks to the Committee meetings which they might attend.

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The Chairman then said that in order to facilitate the consideration at this meeting of Treasury financing and open market policies two memoranda had been prepared, one entitled "Treasury Financing and Open Market Policies" by the Board's staff under date of January 22, 1943, and one by Mr. Sproul under date of December 10, 1942, on the subject "Credit Policy and Treasury Financing". The Chairman said that Mr. Sproul's memorandum was briefly discussed at the last meeting of the Committee and following that meeting copies had been sent to the Presidents of the Federal Reserve Banks who were not members of the Committee. Copies of the memorandum prepared by the Board's staff had been sent to all of the Presidents of the Federal Reserve Banks a few days prior to the present meeting. The two memoranda were read (all but the last section of the memorandum prepared by Mr. Sproul) and there was a general discussion of the several questions raised by the memoranda.

Chairman Eccles stated that, while the December financing campaign had been a success when judged on the basis of the total amount of securities sold, there were many things that would have to be done in future campaigns to improve the procedure, particularly for the purpose of reducing the proportion of new securities sold to banks. He felt that a continuation of the present volume of bank subscriptions would indicate a failure of the Victory Fund Committees to achieve their primary purpose of selling securities to nonbank investors, and that the assumption that it would be necessary to sell as much as

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\$30,000,000,000 of securities to the banks in the current year should be abandoned. He added that every effort should be made to bring about the adoption by the Government of an adequate program of taxation and compulsory saving.

The meeting recessed and reconvened at 2:10 p.m. with the same attendance as at the close of the morning session except that Messrs. McKee and Dreibelbis were delayed, and Mr. Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors, was in attendance.

Chairman Eccles reviewed some of the suggestions that were being considered by the Government with respect to a "pay-as-you-go" income tax plan, a withholding tax, and other fiscal policies, and there was a discussion of Treasury financing and open market policies in the light of a probable budget deficit in excess of \$60,000,000,000. There was a unanimous feeling that, although it very likely would not be possible to hold the amount of bank purchases of Government securities to the minimum indicated by the chart attached to the memorandum prepared by the staff of the Board of Governors and previously referred to at this meeting, everything possible should be done to achieve that objective.

During this discussion, Messrs. McKee and Dreibelbis rejoined the meeting.

Reference was made to suggestions previously offered that Treasury bills be sold at a fixed rate of discount up to \$100,000 to

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any one purchaser or that the Federal Reserve Banks purchase bills directly from the Treasury for resale at a fixed discount rate, and to the further suggestions that the Treasury adopt a policy of offering its bills at the fixed rate of $3/8$ per cent, or that the offerings be at a fixed rate up to a stated amount to any one purchaser and on a bid basis for the balance.

The additional suggestion was offered by Mr. McKee that the weekly issues of bills be allotted to the Federal Reserve districts on the basis of excess reserves held by the member banks in the respective districts with a view to larger sales of bills to banks having excess reserves.

In an informal poll of the Presidents as to their attitude toward the purchase of bills by the Federal Reserve Banks directly from the Treasury for resale, a majority of the Presidents were of the opinion that this should not be resorted to at this time but that other suggestions designed to obtain a wider distribution of bills should be adopted. In a further discussion there appeared to be general agreement that at least for the time being, and in view of the established method of issuing bills and the possible attitude of the Treasury on the matter, the best procedure would be for the Treasury to accept all bids for bills at a $3/8$ per cent rate up to \$100,000 to any one purchaser with the balance being sold on a competitive bid basis.

Turning to the question of the problem before the Federal

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Open Market Committee of maintaining an agreed pattern of rates on Government securities and supplying reserve funds to the market for the purpose of financing the war, Chairman Eccles felt that a strong case could and should be made to the Treasury for the separation of drives for nonbank funds from offerings to banks, for the reason that during the nonbank campaigns the Committee would be faced only with the problem of maintaining the pattern of rates, that securities could be offered to the banks between drives in relatively small amounts which could be handled with smaller excess reserves than were believed to be necessary in the past, and that greater emphasis could be placed on the sale of securities to nonbank purchasers. There should be a determination also, he said, as to how funds are to be put into the market so as to avoid the condition that existed during the December financing when, in order to maintain a certain volume of reserves in the market, as well as to maintain the pattern of rates, the System was forced to buy an undesirable proportion of bonds selling at substantial premiums. It was his opinion that, since we know we shall have to provide a certain amount of reserve funds during this period of heavy war financing, provision should be made for direct purchases from the Treasury to the extent believed to be necessary of portions of the weekly offerings of bills, which, through the redemption of maturing bills held by the public in the amount of the System's purchases, would put the desired funds directly into the market.

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Mr. Sproul stated that in his opinion, and because he believed nothing should be done which might create public concern about the credit of the Government, direct purchases of this kind should not be resorted to for the purpose of supplying reserve funds until necessity forced such action, which is not the case at present. He said that a further effort should be made to convince the Treasury and banks that, when the latter hold substantial amounts of Treasury bills that can be immediately realized upon, the amount of excess reserves is no longer of primary importance. He did not believe, therefore, that the Open Market Committee should undertake to determine beforehand the amount of excess reserves needed in connection with financing operations and to supply them in this way. If a particular financing job appears to require that additional funds be supplied to tone up the market, a better way to accomplish the purpose would be to allow Treasury balances to run down before a financing operation and to meet the Treasury's temporary cash requirements during that period through the purchase by the Federal Reserve Banks of special one-day certificates of indebtedness. This practice, he said, has the virtue of flexibility, of the automatic extinction of the credit created as the Treasury's balances are replenished by the sale of securities, and of public acceptance through previous experience with it. He added that to embark on a program of direct buying of Treasury bills from the Treasury would unnecessarily involve the System in a question of public policy which he felt should not be raised at this time.

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During a discussion of the opinions expressed by Messrs. Eccles and Sproul, the former stated that another aspect of the problem was whether the System should continue to replace in the market maturing bills and certificates held in the System account or whether arrangements should be made with the Treasury for the direct replacement of these maturities which would be in increasing amounts in the future. It was agreed that this point should be considered when the meeting reconvened tomorrow.

Thereupon the meeting recessed to reconvene at 9:30 o'clock tomorrow morning.

Chester Morrie
Secretary.

Approved:

W. H. Eccles
Chairman.