

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 Tuesday, February 29, 1944, at 10:15 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Paddock
Mr. Fleming
Mr. McLarin
Mr. Peyton (alternate for Mr. Day)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Messrs. John H. Williams, MacKenzie,
Bryan, and Wheeler, Associate
Economists
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
Messrs. Piser and Kennedy, Chief and
Assistant Chief, respectively, of the
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. Leach, Young, and Davis, alternate
members of the Federal Open Market
Committee

Messrs. Alfred H. Williams, Leedy, and
Gilbert, Presidents of the Federal Re-
serve Banks of Philadelphia, Kansas
City, and Dallas, respectively

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Mr. Clerk, First Vice President of the
Federal Reserve Bank of San Francisco

Messrs. Sienkiewicz, Edmiston, Upgren,
and Hardy, Vice Presidents of the
Federal Reserve Banks of Philadelphia,
St. Louis, Minneapolis, and Kansas
City, respectively

Mr. Kincaid, Consulting Economist at the
Federal Reserve Bank of Richmond

Mr. Dolley, Economic Adviser at the Fed-
eral Reserve Bank of Dallas

Upon motion duly made and seconded,
and by unanimous vote, the minutes of the
meeting of the Federal Open Market Commit-
tee held on October 18, 1943, were approved.

Upon motion duly made and seconded,
and by unanimous vote, the actions of the
members of the Federal Open Market Commit-
tee (1) on November 19, 1943, in author-
izing an arrangement under which dealers
would offer bills to the Federal Reserve
Bank of New York at the posted rate without
a repurchase option and the Bank would pur-
chase the bills for the System account, and
(2) on December 1, 1943, in excluding from
the limitation on the authority of the ex-
ecutive committee to increase or decrease
the amount of securities held in the System
account bills purchased outright in the market
on a discount basis at the rate of $3/8$ per
cent per annum, were approved, ratified, and
confirmed.

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
October 18, 1943, were approved, ratified,
and confirmed.

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Distribution was made of copies of a report prepared at the Federal Reserve Bank of New York of open market operations covering the period October 19, 1943, to February 24, 1944, inclusive. Mr. Rouse reviewed the more important matters covered by the report as well as the transactions effected in the System account on February 25, 26, and 28, 1944. A copy of the report has 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 October 18, 1943, to February 28, 1944, inclusive, were approved, ratified, and confirmed.

In connection with Mr. Rouse's report, there was a brief discussion of the Fourth War Loan Drive, the probable further growth in bank deposits and currency in circulation, Government receipts and expenditures, and the probable amounts of securities that the System might have to acquire during the coming year in order to supply the market with needed reserves and to maintain about the present general level of Government security prices.

In a discussion of the prices at which certificates had been purchased for the System account in the recent past and the prices at which future purchases should be made, Chairman Eccles suggested that it was desirable that these issues be purchased at prices which would discourage as much as possible the temptation to sell the issues, particularly during war loan drives, in order to purchase new issues of

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certificates, and that for that purpose it would be desirable that purchases for the System account be as near the offering price as possible without regard to maturity in order to avoid paying a premium on the shorter maturities.

Reference was made to the extent to which funds were borrowed during the Fourth War Loan Drive for speculative purchases of securities, and Mr. Rouse stated that it appeared from reports from New York sources and from reports received by dealers from the field that such purchases were in greatly reduced volume as compared with the Third War Loan Drive.

Under date of January 28, 1944, the Examiner in Charge for the Board of Governors submitted to Mr. Morrill, as Secretary of the Federal Open Market Committee, a copy of a report of the examination of the System open market account as of November 13, 1943, made as a part of the regular examination of the Federal Reserve Bank of New York. Copies of the report were sent to the members of the Federal Open Market Committee under date of February 1, 1944.

Upon motion duly made and seconded,
and by unanimous vote, the report, which
contained no criticisms or recommendations,
was received and ordered filed.

Chairman Eccles stated that in a meeting just before this meeting the executive committee approved a recommendation to the full Committee with respect to the terms upon which the Federal Reserve Bank of New York would transact business with dealers in United

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States Government securities for the System open market account, and that this action had been taken by the executive committee with the understanding that the full Committee would be requested, in the event of the adoption of the suggested terms, to authorize the executive committee (1) to make such changes in the form of the statement of terms as appeared to be desirable following the discussion of the matter at this meeting, (2) to make the terms effective at such time as in the judgment of the executive committee appeared to be desirable, and (3) to issue such instructions to the New York Bank in connection therewith as might be required, including possibly the requirement that, if a dealer were removed from the approved list of dealers for violating the terms, he should not be restored to the list without the approval of the executive committee.

The recommendation of the executive committee was read, and in the ensuing discussion Mr. McKee inquired whether the language of the proposed terms was broad enough to cover field representatives of dealers. There was general concurrence in the opinion that the suggested terms would be applicable to all representatives and agents of a qualified dealer and that it would be his responsibility to acquaint his personnel with the meaning of the proposed terms and the extent of his commitment in subscribing to them.

Chairman Eccles stated other ways that had been discussed of meeting the problem of the relationship with the dealers included

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(1) the establishment at the Federal Reserve Banks and their branches of an organization to handle purchases and sales of Government securities now handled by the dealers, (2) the adoption of a policy requiring that transactions handled by the dealers for the System open market account be on a brokerage basis only, and (3) the inclusion in the Board's annual report to Congress of a statement of the problem created by the present situation in which there is no express statutory basis upon which dealers in Government securities can be subjected to adequate regulation. He also said that the executive committee felt that the procedure recommended by it was the most satisfactory, at least for the present, that it might be necessary at a later date to consider modification of the procedure or adoption of one of the other available alternatives, but that it was felt that if the dealers cooperated in the proposed arrangement, as the executive committee felt confident they would, the procedure should work satisfactorily.

There was a discussion of a second question raised by Mr. McKee whether, in the event of large shifts of deposits following the war which would necessitate substantial sales of securities by the banks losing the deposits, the existing dealer organization, operating under the terms proposed by the executive committee, would be able to furnish a satisfactory market for such sales, particularly by the smaller banks, and whether the Federal Reserve Banks should not be prepared to handle that business.

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In that connection Mr. Davis stated that there had been some comment in the Eighth Federal Reserve District about the inability of holders of 2-1/2 per cent bonds, which are ineligible for bank investment, to find a ready market for small lots of such securities.

Messrs. Sproul and Rouse stated that there was no question about the willingness of the System account to take the 2-1/2 per cent bonds of restricted marketability, particularly in small lots, that a substantial amount of these issues had been purchased, but that it had been the custom of the New York Bank not to facilitate the sale of larger blocks of \$250,000 and up merely to enable the seller to purchase similar new bonds as part of the war loan drive, and that in such cases it had been suggested that the dealer take an order for the sale and try to find a customer in the market.

Mr. McLarin inquired whether dealer banks in other cities, such as New Orleans or Dallas, could qualify under the proposed terms. Mr. Rouse replied in the affirmative, stating that it was not expected that many of such banks would be interested in qualifying.

Mr. Davis inquired whether it was the intention under the recommendation of the executive committee to qualify all who met the requirements proposed in the recommendation or only the dealers presently having relationships with the Federal Reserve Bank of New York. Mr. Rouse said that the former was intended, and it was agreed that the final draft of statement should make this point entirely clear.

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Mr. Leedy inquired whether the proposed procedure would have any effect on the present practice of the Federal Reserve Banks of purchasing and selling Government securities as agents for their member banks, and it was agreed that it would not.

In a discussion of the steps to be taken to put the suggested procedure into effect, there was unanimous approval of the suggestion by Mr. Sproul that the Treasury should be informed of what the committee proposed to do so that any objections that the Treasury might have could be considered before the arrangement was made effective.

At the conclusion of the discussion, upon motion duly made and seconded and by unanimous vote, the proposed terms were approved in substance with the understanding (1) that the executive committee was authorized to make such changes in the form of the statement of terms as appeared to be desirable, (2) that the procedure would be put into effect at such time as in the judgment of the executive committee such action appeared to be desirable after having informed the Treasury of the proposed arrangement, and (3) that the executive committee was authorized to issue such instructions to the Federal Reserve Bank of New York as agent for the System account in connection with the proposed procedure as appeared to the executive committee to be desirable, including the manner in which advice of the arrangement was to be sent to dealers who might qualify thereunder.

Chairman Eccles read a review which had been prepared of discussions with the Treasury since the last meeting of the Federal Open Market Committee with respect to the direct replacement of maturing

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bills held in the System open market account. A copy of the review has been placed in the files of the Federal Open Market Committee.

Chairman Eccles then stated that it had been the experience of the members of the Board and the Presidents of the Federal Reserve Banks who had served as members of the executive committee from time to time that the present informal relationship with the Treasury in connection with discussions of Treasury financing policy and procedures had not been at all satisfactory, that it would be very helpful if a more definite understanding with respect to this relationship could be reached, and that he had prepared a statement for this purpose for consideration by the Federal Open Market Committee at this meeting. The statement was read and it was agreed that further consideration should be given to the matter at the meeting of the Federal Open Market Committee to be held tomorrow.

Thereupon the meeting recessed and reconvened at 2:10 p.m. with the same attendance as in the morning session except that Mr. Thurston, Special Assistant to the Chairman of the Board of Governors, and Mr. Parry, Director of the Division of Security Loans of the Board of Governors, were in attendance.

Mr. Goldenweiser stated that in accordance with the arrangement which had been agreed upon for having statements from the economists for the Open Market Committee, statements would be made by Messrs. Edmiston and Upgren. Mr. Edmiston talked on the agricultural situation

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in the South and Mr. Upgren discussed some of the longer-range problems of banking. Mr. Goldenweiser presented a picture of the possible relationships between the volume of postwar employment and production, after which Mr. John H. Williams discussed some of the monetary problems of the war and postwar periods. Transcripts of these statements have been placed in the files of the Federal Open Market Committee.

In the discussion which followed, Chairman Eccles stated that the economists had presented some far-reaching questions for which answers would have to be found if serious difficulties were to be avoided in the postwar period, that the Federal Reserve System was as well qualified as any organization to supply some of the answers to these questions, and that he hoped the economists of the System would direct their studies to this end.

Subsequently and pursuant to authority granted at this meeting, the statement of terms upon which the Federal Reserve Bank of New York will transact business with brokers and dealers in United States Government securities for the System account was approved by the members of the executive committee in the form set forth below:

**"TERMS ON WHICH FEDERAL RESERVE BANK OF NEW YORK WILL
TRANSACTION BUSINESS WITH BROKERS AND DEALERS IN UNITED STATES
GOVERNMENT SECURITIES FOR THE SYSTEM OPEN MARKET ACCOUNT**

"The Federal Open Market Committee has directed the Federal Reserve Bank of New York (hereinafter referred to as the Bank) to transact business in United States Government securities for the System open market account with reputable brokers and dealers in such securities who meet the qualifications and

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"agree in writing to comply with the terms and conditions set forth below.

"1. In determining whether a person (individual, partnership or corporation, including a bank) is a qualified broker or dealer with whom the Bank will transact business, and the extent to which business will be transacted with such person, the following factors will be taken into consideration:

- (a) Integrity, knowledge, and capacity and experience of management;
- (b) Observance of high standards of commercial honor and just and equitable principles of trade;
- (c) Willingness (in the case of a dealer) to make markets under all ordinary conditions;
- (d) The volume and scope of business and the contacts such business provides;
- (e) Financial condition and capital at risk of business; and
- (f) The reliance that can be placed on such person to cooperate with the Bank and the Federal Open Market Committee in maintaining an orderly market for Government securities; to refrain from making any recommendations or statements or engaging in any activity which would encourage or stimulate undue activity in the market for Government securities; and to refrain from disclosing any confidential information which he obtains from the Bank or through his transactions with the Bank.

"2. The Bank will obtain from such person an agreement in writing to comply with the following terms and conditions:

- (a) He will furnish the Bank with a statement for the confidential information of the Bank and the Open Market Committee showing as of the close of business each business day:
 - (1) The total amount of money borrowed (directly and indirectly);
 - (2) The par value of all Government securities borrowed;
 - (3) His position, both long and short, in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank);

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- "(4) The volume of transactions during the day in Government securities, classified by classes of securities and maturity groups (or by issues, if so requested by the Bank); and
 - (5) Such other statistical data as in the opinion of the Bank will aid in the execution of transactions for the System open market account.
- (b) At or before the completion of each transaction with the Bank, he will furnish the Bank with a written notification disclosing whether he is acting as a broker for the Bank, as a dealer for his own account, as a broker for some other person, or as a broker for both the Bank and some other person. In the absence of a special agreement to the contrary with the Bank with respect to a particular transaction, he will not act as broker for any other person in connection with any transaction with the Bank, and he will receive no compensation or profit of any kind in connection with the transaction other than the specified commission paid him by the Bank.
 - (c) In the absence of special arrangements with the Bank, delivery of securities will be made at the office of the Bank before 2:15 p.m. on the next full business day following the day of the contract and all payments by the broker or dealer will be in immediately available funds.
 - (d) He will furnish the Bank not less frequently than once during each calendar year with a report of his financial condition as of a date not more than 45 days prior to the delivery of the report to the Bank in form acceptable to the Bank and prepared or certified by a public accountant acceptable to the Bank; and, upon the request of the Bank, he will furnish it with a statement of condition as shown by his books as of a date specified by the Bank.
 - (e) Unless the Bank shall have informed him of its desire to purchase or sell a particular issue of Government securities, he will not solicit from any other person offerings of

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"or bids for any issue of Government securities for the purpose of placing himself in a position to offer to sell to or buy from the Bank securities of such issue.

"The Federal Open Market Committee has further directed that the Bank decline to transact any further business with a broker or dealer in any case in which the Bank has concluded that the broker or dealer no longer meets the qualifications set forth above or has willfully violated or failed to perform any of the terms and conditions set forth in the agreement.

"To the Federal Reserve Bank of New York:

"The undersigned hereby agrees to meet the qualifications and to comply with the terms and conditions set forth above.

"Dated: _____ (Signature)"

Thereupon the meeting adjourned with the understanding that a meeting of the Federal Open Market Committee would be held tomorrow, March 1, 1944, at 10:00 a.m.

Chesler Morris
Secretary.

Approved:

W. S. Scales
Chairman.