

A meeting of the executive committee 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, March 28, 1944, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. McKee
Mr. Draper
Mr. Leach

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Mr. Rouse, Manager of the System Open
Market Account
Mr. Piser, Chief of the Government Securities Section, Division of Research and Statistics of the Board of Governors

Following the meetings of the Federal Open Market Committee and its executive committee on March 1, 1944, and in accordance with the authority granted at the meeting of the full Committee, the members of the executive committee approved (1) a revised statement of the 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 open market account and (2) a statement with respect to the procedure for presenting Federal Reserve recommendations to the Treasury in regard to important matters of Government financing. The two statements in their final form were sent to the Treasury on March 21 and 25, 1944, respectively, and have been incorporated in the minutes of the meeting of the Federal Open Market Committee on March 1, 1944.

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Upon motion duly made and seconded, and by unanimous vote, the actions of the members of the executive committee in approving the two statements were approved, ratified, and confirmed.

Pursuant to the instructions of the full Committee to the executive committee, copies of a draft of a letter of instructions to the Federal Reserve Bank of New York in connection with the statement of terms had been sent to the members of the executive committee for consideration at this meeting. The draft read as follows:

"At its meeting on February 29, 1944, the Federal Open Market Committee approved in substance a statement of proposed terms upon which the Federal Reserve Bank of New York would transact business with brokers and dealers in United States Government securities for the System open market account. This action was taken 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.

"A copy of the statement of terms as prepared in consultation with you and Mr. Rouse and as approved by the members of the executive committee is enclosed, and there are set forth below the instructions issued to the New York Bank in connection with the statement pursuant to the authority granted by the full Committee on February 29, 1944:

1. The Federal Reserve Bank of New York shall furnish copies of the statement of terms to each broker or dealer in Government securities with whom the Bank has been transacting

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"business on behalf of the System open market account, and to such other brokers and dealers as evidence to the Bank an interest in qualifying and in the opinion of the Bank would have a reasonable chance of qualifying. On and after April 15, 1944, the New York Bank will transact business on behalf of the System open market account only with the brokers and dealers who meet the qualifications, have executed the agreement, and comply with the terms set forth in the statement.

2. When the statement has been presented to the brokers and dealers with whom transactions are now conducted for the System open market account, the Bank shall give copies to representatives of the press informally as a formalization of existing procedure.

3. The Bank shall keep the executive committee of the Federal Open Market Committee informed of each broker and dealer with whom it ordinarily transacts business and of each addition to, or removal from, the list of qualified brokers and dealers.

4. The Bank shall encourage the observance of high standards of commercial honor and just and equitable principles of trade by the brokers and dealers in Government securities, through the medium of the Bank's contacts with the brokers and dealers and the Government Security Dealer Group or any other similar organization that may exist or develop.

5. When any broker or dealer has been removed from the list of qualified brokers and dealers for failure to meet the qualifications set forth in the statement of terms or for willful violation of or failure to perform any of the terms and conditions set forth in the agreement, and the Bank is satisfied that he has taken appropriate steps to correct any default and to prevent the occurrence of similar defaults in the future, the Bank may restore him to the list of qualified brokers and dealers and resume the transaction of business with him, after obtaining the consent of the executive committee of the Federal Open Market Committee.

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"A copy of the letter being sent today to the Presidents of the other Federal Reserve Banks in connection with this matter is enclosed."

Upon motion duly made and seconded, and by unanimous vote, the letter was approved, together with the following letter to the Presidents of the other Federal Reserve Banks, with the understanding that both letters would be sent upon approval of the Chairman and Vice Chairman of the executive committee of the Federal Open Market Committee after their meeting with the Secretary of the Treasury on March 29:

"You will recall that at the meeting of the Federal Open Market Committee on February 29, 1944, the Committee approved in substance a statement of proposed terms upon which the Federal Reserve Bank of New York would transact business with brokers and dealers in United States Government securities for the System open market account. This action was taken 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.

"A copy of the statement of terms is enclosed in the form approved by the executive committee. A copy of the letter containing the instructions of the executive committee to the Federal Reserve Bank of New York in connection with the statement is also attached.

"When the statement has been presented to the brokers and dealers with whom the Federal Reserve Bank of New York now does business for the System account, it will be handed by the Bank informally to representatives of the press as a formalization of existing procedure.

"If any broker or dealer in your district evidences an interest in qualifying under the terms of the statement

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"as a broker or dealer with whom the Federal Reserve Bank of New York would do business for the System account, and in your opinion such broker or dealer would have a reasonable chance of qualifying, it is requested that you furnish him a copy of the statement, and, in the event he desires to pursue the matter further, that you so inform the manager of the System account, giving him such information with respect to the broker or dealer as you think would be of value in determining whether he should be qualified. It is assumed that if a broker or dealer in your district should take up the matter of qualifying directly with the New York Bank, the Bank would request your views before reaching a decision."

Chairman Eccles stated that the Treasury was in the midst of its study of plans for the Fifth War Loan Drive, that it was expected that a formal announcement of the drive would be made later this week, and that the Secretary of the Treasury had requested a meeting with members of the executive committee tomorrow, March 29, at 11:00 a.m. for the purpose of considering such recommendations with respect to the financing as the representatives of the Federal Reserve System might wish to make.

During a discussion of the recommendations to be submitted to the Treasury with respect to the next drive, reference was made to (1) a memorandum prepared by Mr. Sproul and sent by him to the other members of the executive committee under date of March 25, 1944, (2) a memorandum dated March 25, 1944, from Mr. Piser as representing the views of Chairman Eccles, and (3) a letter addressed to Chairman Eccles by Under Secretary of the Treasury Bell on March 27, 1944, outlining points on which the Treasury would like to have the advice

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and recommendations of the members of the executive committee.

At the conclusion of the discussion, which continued following a recess for luncheon, it was understood that Messrs. Rouse and Piser would prepare a draft of statement of the recommendations of the executive committee along the lines agreed upon during the discussion, with the understanding that the committee would meet again tomorrow morning to approve the statement.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee of the Federal Open Market Committee held on February 29 and March 1, 1944, were approved.

Mr. Rouse reviewed the transactions effected for the System account since the last meeting of the executive committee and discussed briefly certain effects on the market of the recent references in the press to the proposal of the House Ways and Means Committee to simplify the individual income tax structure by a reduction in the normal tax from 6 per cent to 3 per cent, the elimination of the victory tax, and an increase in the surtax.

Following Mr. Rouse's statement, the transactions in the System account during the period February 29 to March 27, 1944, inclusive, were approved, ratified, and confirmed.

On March 8, 1944, the Federal Reserve Bank of St. Louis called Mr. Rouse to say that it was expected that, because of the terms of

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Missouri tax laws, banks in that State would tender to the Federal Reserve Bank during the next day or two a substantial amount of Treasury bills, and that if the Reserve Bank purchased and held all of the bills there would be a disproportionate reduction in its reserve ratio which it would like very much to avoid. Mr. Rouse had suggested that, because of the accounting work that would be involved in taking the bills into the System account, the situation be met by the Federal Reserve Bank of St. Louis asking other Reserve Banks with relatively high reserve ratios to purchase the bills on a temporary basis from the Federal Reserve Bank of St. Louis, with the understanding that that Bank would buy them back when the original holders were ready to repurchase from the St. Louis Bank or at the earliest possible date consistent with its reserve position. This procedure was approved by all of the members of the executive committee and was carried out accordingly.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the executive committee in this connection was approved, ratified, and confirmed.

All of the members of the executive committee were in agreement that the direction of the committee to the New York Bank to execute transactions for the System account should be renewed in the form in which it was issued at the meeting of the committee on March 1, 1944.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York, until otherwise directed by the executive committee,

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(1) To make such purchases, sales, or exchanges (including replacement of maturing securities and allowing maturities to run off without replacement) for the System account, either in the open market or directly from, to, or with the Treasury, 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 of maintaining an adequate supply of funds in the market; provided (a) that the total amount of securities in the account at the close of March 28, 1944, shall not be increased or decreased by more than \$750,000,000 (exclusive of special short-term certificates of indebtedness purchased for the temporary accommodation of the Treasury pursuant to paragraph (2) of this direction), and (b) that this paragraph shall not limit the amount of Treasury bills purchased pursuant to the directions of the Federal Open Market Committee issued under dates of June 28, 1943, and March 1, 1944, or the redemption of such bills;

(2) To purchase direct from the Treasury for the System open market account such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held in the account at any one time shall not exceed \$750,000,000; and

(3) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other purchases, sales, or exchanges for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

In taking this action, it was understood that the limitations contained in the direction included commitments for purchases or sales of securities for the System account.

Thereupon the meeting recessed with the understanding that it

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would reconvene again tomorrow, March 29, at 10:00 a.m.

Chester Morrie
Secretary.

Approved:

W. Stiles
Chairman.