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 Thursday, May 4, 1944, at 2:15 p.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. Williams, Associate Economist
Mr. Wyatt, General Counsel
Mr. Rouse, Manager of the System Open Market Account
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. Peyton, Member of the Federal Open Market Committee

Messrs. Young and Day, Presidents of the Federal Reserve Banks of Chicago and San Francisco, respectively

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on March 28-29, 1944, were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period March 28 to May 3, 1944, inclusive, were approved, ratified, and confirmed.

Chairman Eccles referred to the action taken by the members of the executive committee on April 18, 1944, in approving an amendment to the outstanding direction to the Federal Reserve Bank of New York to execute transactions in the System account so as to exempt from the limitation of the direction all bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity. It was explained that under the present procedure new bills were purchased from the dealers on Wednesday of each week and maturing bills held in the System account were redeemed on Thursday, with the result that in the absence of the amendment referred to above it would have been necessary to increase the limitation contained in the direction to the New York Bank to permit the temporary increase in commitments against the authority occasioned by purchases of bills on Wednesday which was not offset by the redemption of maturing bills until the following day. It had been felt by the members of the executive committee that it would be more satisfactory to exempt purchases of bills at the 3/8 per cent rate and the redemption of bills from the limitation of the direction rather than to increase the amount of the limitation, and the amendment was approved for that purpose.

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

Mr. Szymczak joined the meeting at this point.

Chairman Eccles reported that on April 28, 1944, he had sent to the Treasury, as contemplated by the action taken at the meeting of the executive committee on March 29, 1944, the supplementary memorandum set forth below. Copies were also sent to the Presidents of the Federal Reserve Banks on the same date.

> "In our memorandum of March 29, 1944, we recommended that the rate on Treasury bills be increased to 1/2 of one per cent and the maturity extended to four months. At the meeting of our representatives with you, concern was expressed by your associates as to the effect on the whole interest rate structure of the abandonment of the 3/8 of one per cent rate. At the same time, our representatives referred to the fact that an increase in rate would mean an increase in earnings on the large holdings of bills by the System and expressed the view that, while this circumstance should not be a determinant of financing policy, ways could be devised to overcome it, if necessary.
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> "Renewed consideration of our recommendation has further convinced us that it is sound in principle. Renewed consideration of the Treasury's views has suggested an adaptation of our proposal that should make it acceptable without detracting essentially from its advantages. In brief, we now propose that there be two issues of Treasury bills, one of three-month maturity, which would be largely if not wholly taken by the Federal Reserve Banks, and one of five-month maturity, which would achieve the wider distribution we seek in the market. In order to make this proposal effective, we would recommend that:
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> 1. The Treasury plan to raise funds between drives largely by means of five-month bills instead of certificates or longer-term securities.
> 2. The Treasury offer initially 1.2 billion dollars of bills each week, including 600 million of three-month bills and 600 million of five-month bills. At the end of each three-month period, the Treasury would increase the weekly offering of three-month bills, in order to enable the System to provide banks with such reserves as are needed on the basis of 3/8 instead of 5/8 of one per cent.
> 3. The Federal Open Market Committee direct the Federal Reserve Banks to establish a buying rate of 5/8 of one per cent and a repurchase option on the new bills.

"4. The Federal Open Market Committee direct the Federal Reserve Banks to offer each week to purchase from dealers the amount of the offering of new three-month bills and to maintain the present buying and repurchase rate of 3/8 of one per cent on such bills, the rate being maintained initially to protect existing holders and subsequently to avoid its disappearance from the market. This proposal has the following advantages:

a. By offering 1.2 billion dollars of bills a week, the Treasury could raise 8.0 billion of funds. Following the completion of both cycles, there would be outstanding 7.8 billion dollars of three-month bills (600 million a week for 13 weeks) and 13.2 billion of five-month bills (600 million a week for 22 weeks), making a total of 21 billion, compared with the present 13 billion. This amount of new funds would cover the maximum necessary interim bank financing in 1944.

b. The rate on the new five-month bills would be in line with the present pattern of rates as indicated by the market for certificates of indebtedness that mature in five months, but the difficult task of maintaining a market pattern between 3/8 and 7/8 of one per cent would be relieved in considerable measure.

c. The net cost to the Treasury would probably be no larger than if the financing were done partly with 3/8 of one per cent bills and partly with 7/8 of one per cent certificates or higher-rate securities. What the Treasury would lose by shifting some of the bills from 3/8 to 5/8 of one per cent would be regained by shifting from certificates at 7/8 of one per cent to bills at 5/8 of one per cent. To the extent, moreover, that the higher-rate bills proved attractive "to nonbank investors, so that they could be used to reduce materially the amount of Treasury financing to be done indirectly through the banks, the net cost of the Treasury's borrowing would be less than under the present program.

d. It would eliminate the offering of certificates or longer-term securities between drives. Such offerings require special announcements that call attention to direct bank financing and are an indication that the Treasury has not obtained sufficient funds from nonbank investors. Such offerings, moreover, involve problems of handling subscriptions and making allotments and in the case of certificates necessitate annual refunding offerings. Offerings of bills, however, are more or less routine and can be used to provide whatever amount of residual financing is needed and whenever it is needed.

e. Treasury bills would regain some of the character of market obligations, whereas now they are tending to become almost solely a medium for Federal Reserve financing. Banks are now keeping their holdings of three-month bills at low levels, because of the unattractive rate, and are purchasing certificates for their shortest-term investments. The higher rate on bills would result in an increase in commercial bank buying and holding of bills and would encourage banks to meet fluctuations in reserves through changes in their bill portfolios rather than through buying and selling certificates, notes, and bonds.

f. More important, there would also be an increase in the buying and holding of bills by business concerns, which are now holding large amounts of cash on deposit with banks. Since bills are as liquid as deposits, business concerns could reduce their deposits substantially and meet some of their "fluctuating needs for cash by changes in their bill holdings rather than through bank deposits. By this process, the amount of nonbank investment in Government securities would be increased, and the amount of necessary bank financing would be reduced.

"It is suggested that these recommendations be put into effect as soon as possible so that they will immediately become a part of the Treasury's financing program for the remainder of the year."

Upon motion duly made and seconded, and by unanimous vote, the memorandum was approved and its submission to the Treasury was approved, ratified, and confirmed.

Chairman Eccles stated that following submission of the supplementary memorandum Under Secretary of the Treasury Bell called on the telephone to say that the Treasury representatives had considered the suggested issuance of a 5/8 per cent bill but were not prepared to accept the recommendation at this time because of the imminence of the Fifth War Loan Drive and the anticipated invasion with the accompanying uncertainty in the market. Mr. Bell told Chairman Eccles that the memorandum was appreciated, that perhaps the position taken therein was the correct one, and that after the Fifth War Loan Drive was past it would be considered again. Chairman Eccles also said that Mr. Bell had reported that the Treasury planned to increase the weekly bill offering by 200 million dollars which, over the period of 13 weeks, would increase the amount of outstanding bills by 2,600 million dollars.

Chairman Eccles then reported that on April 7, 1944, Under Secretary of the Treasury Bell acknowledged the receipt of the letter sent to Secretary Morgenthau on March 21, 1944, transmitting the statement of terms on which the Federal Reserve Bank of New York would transact business with brokers and dealers in Government securities for the System account, and stated that the proposal seemed to present questions in which the Treasury was vitally interested and that Mr. Bell would like to withhold his comments on it until his return from a week's vacation, at which time he would discuss the matter with Chairman Eccles. Subsequently, Chairman Eccles said, Mr. Bell stated that he would send a letter to the Federal Open Market Committee regarding the matter, and during the week before last he told Mr. Bell that the Committee would like to have his comments by the end of that week but nothing further had been heard. Chairman Eccles was of the opinion that no further comment would be received from the Treasury on the matter and that there was no reason for further delay in putting the statement of terms into effect.

The other members of the executive committee were in agreement with this opinion, and, upon motion duly made and seconded and by unanimous vote, the authority granted to Messrs. Eccles and Sproul at the meeting of the executive committee on March 29, 1944, to approve and transmit to the Federal Reserve Bank of New York and the other Federal Reserve Banks the two letters approved at that meeting was renewed, with the understanding that in the absence of further developments the statement of terms would be made effective on May 15, 1944.

Thereupon the meeting recessed to reconvene following the second session of the Federal Open Market Committee.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.