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 Monday, December 11, 1944, at 9:30 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. 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

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 September 21, 1944, were approved.

It had been anticipated that the authority granted to the Federal Reserve Bank of New York at the last meeting of the executive committee to execute transactions for the System account would be adequate to meet conditions developing in the government securities market until additional member bank reserves became available during the Sixth War Loan Drive as a result of additions to the banks' war loan deposit accounts. However, toward the latter part of November, there were large sales of certificates and increased purchases for the System account. On November 29, 1944, it became evident that the New York Bank would have to have additional authority to meet the situation and the members of the executive committee, on that date, approved an increase from $750,000,000 to $1,000,000,000 in the limitation on the authority granted to the New York Bank to execute transactions for the System account, as contained in the direction issued at the meeting of the executive committee on September 21, 1944. The pressure on the certificate market continued after the opening of the Sixth War Loan Drive, with continued purchases of certificates for the System account, and, on December 9, 1944, the members of the committee approved a further increase from $1,000,000,000 to $1,250,000,000 in the limitation on the authority granted to the New York Bank.

> Upon motion duly made and seconded, and by unanimous vote, the actions taken by the members of the executive committee on November 29 and December 9, 1944, in granting additional authority to the Federal Reserve Bank of New York to execute transactions for the System account were approved, ratified and confirmed.
>
> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period September 21 to December 9, 1944, inclusive, as reported to the members of the executive committee, were approved, ratified and confirmed.

Chairman Eccles referred to the information submitted by Mr. Rouse, under dates of October 11 and November 1, 1944, in response to questions raised at the last meeting of the executive committee and in Chairman Eccles' letter of September 11, 1944, to Mr. Sproul, with respect to certain information concerning brokers and dealers in Government securities. Chairman Eccles stated that, if agreeable to the members of the committee, he would suggest that a discussion of these questions be deferred for consideration at a meeting of the executive committee to be held some time after the first of next year. No objection was offered to this suggestion.

Before this meeting each of the members of the executive committee of the Federal Open Market Committee received a copy of a letter dated December 4, 1944, from Mr. Rouse as Manager of the System Open Market Account, to Mr. Sproul as President of the Federal Reserve Bank of New York, transmitting a memorandum dated December 1, 1944, and relating to System policy as it concerned the maintenance of yields on certificates of indebtedness. The memorandum pointed out that since May 1942 the New York Bank had been instructed by the executive committee to "maintain about the present general level of prices and yields of United States Government securities", and that, accordingly, a pattern of rates had been maintained, with only small variations, except in the short-term section of the market where the yields on certificates of indebtedness had been allowed to rise substantially above the yield curve, which was in accordance with the expressed but unrecorded views of the Federal Open Market Committee. The memorandum also discussed the difficulty of maintaining yields on certificates in line with the pattern of rates, presented a possible way of meeting the problem, and stated that the matter had now reached a point where a reconsideration of System policy, precedent to a review of the committee's understanding with the Treasury, was necessary. Mr. Rouse's letter to Mr. Sproul stated that while the memorandum attached thereto was in course of preparation the Treasury had occasion to review the rates of the regular monthly financing of the Federal Intermediate Credit Banks and also some private financing of the Federal Home Loan Banks; that in each case the rates proposed by the fiscal agents of these banks, after consultation with the market, were higher than for similar financing last June; and that the reason given for the increased rates was the higher level of yields on Treasury certificates. The letter also stated that Mr. Bell, Under Secretary of the Treasury, had said that he was considerably disturbed and that he thought the Federal Open Market Committee was not doing its job, based on the Treasury's understanding of the Committee's commitment to maintain the pattern of rates extending from 3/8 per cent Treasury bills to the 2-1/2 per cent Treasury bonds. The letter made the further statement that, if the pattern of rates on certificates was not to be maintained, it appeared that the Treasury should be brought into agreement with the policy of the Committee and the instructions to the Federal Reserve Bank of New York, as agent for the System open market account and through it to

Manager of the System account, should be made clear on this point.

Chairman Eccles stated that he had discussed this matter over the telephone recently with Under Secretary of the Treasury Bell. He said he told Mr. Bell that the rate on Treasury bills was nothing more than a discount rate; that it had no relation to market rates on other securities in the market; that, therefore, there was no justification for undertaking to maintain market rates on certificates in line with the existing rate on bills; and that he would be opposed to instructions being issued to the Federal Reserve Bank of New York to that effect as it would only mean that certificates would sell at a greater premium thereby providing a greater opportunity for certificate holders to "pla, the pattern of rates." He also said that he stated to Mr. Bell that, if the Treasury were dissatisfied with the present situation and desired to make a request that purchases be made to maintain higher premiums than those at which purchases had been made in the recent period, he would present the matter to the Federal Open Market Committee, but that he would vote against complying with the request as he did not think this was the proper interpretation of the commitment of the System to maintain a pattern of rates.

Chairman Eccles also said that he had prepared a memorandum for presentation at the meeting of the full Committee which contemplated, among other things, an increase in the rate on Treasury bills to 1/2 per cent and a decrease in the rate on certificates to 3/4 per cent, and that if such a program were adopted the problem presented in Mr. Rouse's memorandum would be largely removed. Therefore, he suggested that the matter be deferred for consideration at the meeting of the full Committee. All of the members present were in agreement with this suggestion.

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

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.