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, March 1, 1945, at 5:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. Evans
Mr. Alfred H. Williams

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
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, Mr. Sproul was reelected Vice Chairman of the executive committee to serve until the election of his successor at the first meeting of the Federal Open Market Committee after February 28, 1946.

In connection with the direction to be issued to the Federal Reserve Bank of New York with respect to the execution of transactions for the System open market account, it was suggested that the direction issued at the last meeting of the committee be renewed except that the limitations contained in paragraphs (1) and (2) of the direction be fixed at $500 million instead of $750 million with the understanding that should additional authority be needed it could be granted by the members of the committee, as provided in paragraph (3) of the direction.

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,

(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 this date shall not be increased or decreased by more than $500,000,000 [exclusive of 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, and 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 March 1, 1944, and March 1, 1945, 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 $500,000,000; 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.

In accordance with a suggestion by Chairman Eccles, copies of the memorandum addressed to the Board of Governors by Mr. Piser under date of February 8, 1945, with respect to brokers and dealers in Government securities were handed to the members of the executive committee, and it was understood that the matters referred to in the memorandum would be taken up at the next meeting of the committee.

Messrs. Eccles and Sproul then made substantially the following statement with respect to their conference with Secretary of the Treasury Morgenthau this afternoon:

The meeting was attended by Secretary Morgenthau, Under Secretary Bell, Mr. Haas, Director of the Division of Research and Statistics of the Treasury, and Messrs. Eccles and Sproul. The meeting was a very friendly and informal one. We told the Secretary that we had given this matter more consideration than at any other time; that the memorandum which had been approved by the Federal Open Market Committee was the result of several conferences of members of the executive committee with representatives of the Treasury and of a very full and complete discussion by all of the members of the Federal Open Market Committee and the other Presidents of the Federal Reserve Banks, all of whom had an opportunity to present their views, and that the memorandum represented the unanimous recommendation of the Federal Open Market Committee as well as the Presidents who were not members of the Committee. The memorandum was read by Chairman Eccles, who at several points diverted to emphasize certain aspects involved in the recommendations, and these were discussed.

Mr. Bell wanted to know whether the System representatives had considered a bank offering of $3 billion of 1-1/4 per cent securities in place of certificates and the suggested 1-1/2 per cent issue. We said that that had not been discussed at this time but had been considered on previous occasions and that some objection had been raised to such an issue. Secretary Morgenthau expressed the opinion that there should not be an issue during the drive that would be available to banks only but that they should be allowed to subscribe for the short-term issues that would be in the basket. Mr. Sproul raised the point that to give the banks a 1-1/4 per cent security might increase the speculation and free-riding on the 1-1/2's even though there was a separate offering of 1-1/4's to the banks, and that the cost of the 1-1/2's and the 7/8 per cent certificates would be no more than the 1-1/4's.

Secretary Morgenthau followed the reading of the memorandum very attentively, and it appeared that he had a much more comprehensive picture of what we had in mind than ever before. It was apparent that he had participated in a considerable amount of discussion and that the bankers and his own staff, including Mr. Gamble's organization, had acquainted him with many of the objections that had been raised to previous drives.

We had a good opportunity to present the reasons why a direct bank financing was desirable, pointing out that if a direct offering were not included we could be sure that the corporations would take more securities for resale to banks. It appeared to be the opinion of the Treasury representatives that the 1-1/2's should not be made available to corporations. Secretary Morgenthau asked why that was our opinion. We presented our reasons and Mr. Bell said that those were the reasons for the Treasury's position also. Chairman Eccles said that he was particularly in favor of not making the 1-1/2's available to corporations if a direct offering were given to the banks, but that to ask the corporations not to buy for resale was not very consistent if the banks were not given a separate offering.

Secretary Morgenthau was concerned about the little banks if only the 7/8's and 1-1/2's were made available to them during the drive. He said that the banks were doing a lot of work for the Treasury and that it had no way of compensating them for it. It was brought out that 10 per cent of the savings deposits of a small bank did not mean much. Mr. Bell suggested that instead of eliminating the banks from investing some portion of their savings deposits in long-term bonds, the limit for the next drive be placed at $100,000. Secretary Morgenthau asked why the banks should not be allowed to take up to $100,000 of F and G bonds, which would be much easier to police and the securities would be more desirable from the banks' standpoint. We all agreed that that would meet the problem with the little banks, that it would be desirable, and that the other banks would be satisfactorily taken care of by our suggestion of accepting small subscriptions in full, except that the limit on such subscriptions should be reduced to $25,000 for each issue instead of $50,000.

Mr. Bell had certain other suggestions and the Secretary suggested that we go into Mr. Bell's office and discuss them. He also said that he would like to consider our suggestions and discuss them with members of his own staff, and that he would get in touch with us again tomorrow morning. Mr. Rouse went into Mr. Bell's office with us and the discussion there was almost entirely related to three things.

The first was the question of when to announce the maturity on the 2-1/2's, 2-1/4's, and 1-1/2's. That question has not yet been settled but it was generally agreed that the maturities on the 2-1/2's and 2-1/4's should be announced when the basket was announced. There was also some discussion as to what the maturities should be, and we argued that a material extension of maturities would give the public the idea that the Treasury was pushing the maturity out to reduce the rate. Mr. Bell suggested that the call period be increased from five to seven years, and we agreed that there would be no objection to that. We discussed quite extensively the desirability of shortening the period during which restricted issues would be eligible for banks. We had also discussed that with Secretary Morgenthau and he seemed to be receptive to the idea. We all had a little difficulty in determining the question of pricing the 1-1/2's. There was a possibility of their going up on the announcement and if the maturity were announced now they might go to such a premium that there would be an unnecessary amount of free-riding. That caused everyone to hesitate to fix the maturity now. Therefore, that question has also been left open.

Mr. Bell was interested in having us consider whether the bank offering should be before or after the drive. Secretary Morgenthau thought it would be better to have it before the drive for the reason that if it were made after the drive it might create the impression that the Treasury had to resort to the banks in order to get the necessary amount of financing, and that if the banks were allowed to subscribe before the drive they would be less anxious to acquire securities indirectly.

The Treasury representatives, including Mr. Gamble, were of the opinion that they did not want heavy oversubscriptions in the next drive. Mr. Haas appeared to expect that about $17 billion would be raised and felt that it would be unfortunate if the drive produced much more than that.

They raised a question as to the quota for corporations. We had fixed that at $5 billion, whereas they had in mind $6 billion. We stated the reasons back of our suggestion but Mr. Haas said they would like to raise it to $6 billion anyway, as there would be some buying for resale and if the quota were made $6 billion there would not be a substantial oversubscription. We said that, if the Treasury sales organization was willing to fix a quota of $6 billion with a direct bank offering, the Federal Reserve representatives would have no objection to it except that if the corporations did not have funds with which to make their quota a situation might result in which the corporations would be urged not to sell securities in order to buy drive securities but where the quota could not be reached without such sales.

This was the best conference we have ever had with the Treasury people on Treasury financing and has proved two things: (1) that our coming together for a discussion and putting our conclusions in writing is important, and (2) that much better results are obtained when the group conferring with the Secretary is a small one.

We received the definite impression that Messrs. Bell and Haas favor a direct bank financing but that the sales organization does not like it.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.