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 Thursday, March 1, 1945, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Alfred H. Williams
Mr. Gidney
Mr. Leedy
Mr. Gilbert

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Messrs. John H. Williams and Kincaid, Associate Economists
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. Thurston, Assistant to the Chairman of the Board of Governors
Mr. Thomas, Director of the Division of Research and Statistics of the Board of Governors

Messrs. Flanders, Young, and McLarin, alternate members of the Federal Open Market Committee

Messrs. Leach and Peyton, Presidents of the Federal Reserve Banks of Richmond and Minneapolis, respectively

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

Messrs. Sienkiewicz and Hardy, Vice Presidents of the Federal Reserve Banks of Philadelphia and Kansas City, respectively

Mr. Dolley, Director of Research and Statistics, Federal Reserve Bank of Dallas

The Secretary reported that advices of the election for a period of one year commencing March 1, 1945, of members and alternate members of the Federal Open Market Committee representing the Federal Reserve Banks had been received, that each newly elected member and alternate member (with the exception of Mr. Day who did not attend this meeting) had executed the required oath of office, and that it was the opinion of the Committee's counsel on the basis of the advices received that the following members and alternate members were legally qualified to serve:

Allan Sproul, President of the Federal Reserve Bank of New York, with L. R. Rounds, First Vice President of the Federal Reserve Bank of New York, as alternate member;
Alfred H. Williams, President of the Federal Reserve Bank of Philadelphia, with Ralph E. Flanders, President of the Federal Reserve Bank of Boston, as alternate member;
Ray M. Gidney, President of the Federal Reserve Bank of Cleveland, with C. S. Young, President of the Federal Reserve Bank of Chicago, as alternate member;
R. R. Gilbert, President of the Federal Reserve Bank of Dallas, with W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, as alternate member; and
H. G. Leedy, President of the Federal Reserve Bank of Kansas City, with William A. Day, President of the Federal Reserve Bank of San Francisco, as alternate member.

Upon motions duly made and seconded, and by unanimous votes, the following officers of the Federal Open Market Committee were elected to serve until the election of their successors at the first meeting of the Committee after February 28, 1946:

Marriner S. Eccles, Chairman
Allan Sproul, Vice Chairman
S. R. Carpenter, Assistant Secretary
E. A. Goldenweiser, Economist
James C. Dolley, C. O. Hardy, K. H. Mackenzie, C. A. Sienkiewicz, Woodlief Thomas, and John H. Williams, Associate Economists
Walter Wyatt, General Counsel

Inasmuch as J. P. Dreibelbis, Assistant General Counsel for the Federal Open Market Committee, had indicated informally his intention to resign in the near future as General Attorney for the Board of Governors, he was elected as Assistant General Counsel for the Federal Open Market Committee to serve until the effective date of his resignation as General Attorney for the Board, and his successor as General Attorney for the Board was elected to serve as Assistant General Counsel of the Federal Open Market Committee until the election of his successor at the first meeting of the Committee after February 28, 1946.

Upon motion duly made and seconded, and by unanimous vote, the Federal Reserve Bank of New York was selected to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after February 28, 1946.

Mr. Sproul stated that the board of directors of the Federal Reserve Bank of New York had selected Mr. Rouse as Manager of the System Open Market Account, subject to the selection of the Federal Reserve

Bank of New York by the Federal Open Market Committee as the Bank to execute transactions for the System open market account and to his approval by the Federal Open Market Committee.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Rouse as Manager of the System Open Market Account was approved.

Upon motions duly made and seconded, and by unanimous votes, the following were selected to serve with the Chairman of the Federal Open Market Committee (who, under the provisions of the by-laws, is also Chairman of the executive committee) as members and alternate members of the executive committee until the selection of their successors at the first meeting of the Federal Open Market Committee after February 28, 1946:

Members	Alternate Members
M. S. Szymczak R. M. Evans	Ronald Ransom John K. McKee Ernest G. Draper (to serve in the order names as alternates for Messrs. Eccles, Szymczak, and Evans)
Allan Sproul Alfred H. Williams	Ray M. Gidney and R. R. Gilbert (to serve in the order named as alternates for Messrs. Sproul and Williams)

In accordance with the understanding reached at the meeting of the Federal Open Market Committee yesterday, copies of the memorandum relating to Treasury financing which had been prepared by Messrs. Rouse, Piser, and Kennedy had been furnished to all of the members of the Federal Open Market Committee and to the other Presidents of Federal Reserve Banks who were in attendance at this meeting. Certain changes had been suggested in the memorandum and the recommendations contained in the memorandum were read in their revised form.

At the conclusion of a discussion, the memorandum was approved as follows, with the understanding that it would be presented to the Secretary of the Treasury by Messrs. Eccles and Sproul when they met with Secretary Morgenthau this afternoon:

"MEMORANDUM TO THE SECRETARY OF THE TREASURY
FROM THE FEDERAL OPEN MARKET COMMITTEE

"In the light of the joint objectives of the Treasury and the Federal Reserve System with regard to war financing, the following program is recommended:

1. That the Seventh War Loan Drive be divided into two distinct parts, the first for individuals and the second for other nonbank investors, and that the goal for the second part be placed at 5 billion dollars. The suggested dates, May 14 - June 16 and June 18-30, are entirely satisfactory.

2. That the Treasury announce at the present time that the offerings in the individual drive, in addition to savings bonds and savings notes, will consist of 7/8 per cent certificates, 1 1/2 per cent securities, and 2 1/4 and 2 1/2 per cent restricted bonds and that the offerings in the second part of the drive will consist of the same securities, except for the exclusion of Series E savings bonds and the 1 1/2 per cent securities.

3. That no announcement be made at the present time of the maturities of any of the issues included in the drive. The announcement should, however, state that the maturities on the 2 1/4 and 2 1/2 per cent bonds will correspond approximately with the last previous issues of such securities, with allowance for the lapse of time. It is suggested that the Treasury consider lengthening the period during which these securities are ineligible

"for bank purchase. The maturity of the 1 1/2 per cent securities would be determined in relation to the level of the market after the announcement and at the time of the offering.

4. That the Treasury also announce at the present time that, after the end of the corporate drive, it will make a direct offering of 1.5 billion dollars of certificates and 1.5 billion of 1 1/2 per cent securities to commercial banks. Subscriptions would be limited to a proportion of capital and surplus or a proportion of deposits, with the objective of limiting total subscriptions to not far in excess of 3 billion dollars. All subscriptions for $50,000 or less for each issue would be accepted in full. This would make it unnecessary to continue offerings to commercial banks on the basis of their time deposits.

5. That the Treasury limit the amount of war loan deposits held by any one bank to 30 per cent of its deposits, other than war loan deposits, and that the collateral pledged to secure such deposits be confined to U. S. Government securities.

6. That the Treasury continue to increase the outstanding amount of Treasury bills by 100 million dollars a week until the completion of the full cycle and that the question of continuing this increase be reexamined at that time.

"The separation of the drive into two distinct parts, one for individuals, partnerships, and trust accounts, and the other for other nonbank investors is in line with our earlier recommendations and has our full endorsement. We feel also that the increase in the quota for the individual drive will place individuals and the selling organization under substantial, but not impossible, pressure. It is recommended that the quota for other nonbank investors be decreased to 5 billion dollars, which would make it unnecessary for these investors to sell any of their existing holdings. The selling organization should be instructed to discourage the making of quotas by selling from existing holdings. It would be expected that between 3.0 and 3.5 billion dollars of this total would be obtained from insurance companies, mutual savings banks, and similar institutions, this amount representing their accumulation of funds. The remainder would come principally from corporations.

"A maximum rate of 1 1/2 rather than 1 3/4 per cent on unrestricted securities would have a number of advantages.

"The lower rate would reduce the interest cost of the debt and retard the growth in bank earnings. It also would reduce the temptation for commercial banks to arrange for indirect purchases and would reduce the amount of free-riding and speculation. At the same time, it would not be likely to reduce materially the demand from individuals.

"An extension of the maturities of the 2 1/4 and 2 1/2 per cent bonds would not reduce the interest cost to the Treasury, and it might create a bad market situation in the event of large sales by nonbank investors. It is expected that the prices of the existing issues of 2 1/4 and 2 1/2 per cent bonds would decline on an announcement that new issues bearing these coupon rates will be offered in the drive.

"It is especially important to include 2 1/2 per cent bonds in the drive. Otherwise, the prices of the existing 2 1/2 per cent bonds would increase further, with the result that the long-term rate would decline. The 2 1/2 per cent rate has been the most important rate in the entire war financing program. Even at the 2 1/2 per cent rate, however, it has been difficult to encourage purchases of Government securities. A reduction in that rate would increase the difficulty by reducing the incentive to save. These securities are in an entirely different category from unrestricted securities, because they can be held only by individual savers and by institutions that hold savings of the public and therefore cannot involve an unnecessary expansion in bank credit. Finally, if the long-term rate were reduced, it might be impossible later to restore the 2 1/2 per cent rate if that course seemed to be desirable, because it would involve permitting newly-issued 2 1/4 per cent bonds to decline below par.

"Direct bank financing should have no adverse public reaction, because those who realize that indirect bank participation has been an important part of recent drives would recognize the advantages of the change, whereas those who do not know this fact would be unlikely to realize that any change had been made. Commercial banks have found that many nonbank investors are willing to subscribe for securities for the purpose of reselling the securities to commercial banks at little or no premium. Banks that have followed the Treasury's request, however, have been able to purchase securities only by paying substantial premiums to speculators. In effect, therefore, the Treasury, by "not making direct offerings to commercial banks, makes it advantageous for banks not to follow the Treasury's own request. In addition to putting bank purchases on a more straightforward basis, a direct offering to banks would permit banks to purchase new securities at par rather than to pay premiums to speculators or to make special arrangements with nonbank investors. It also would reduce free-riding and would reduce undesirable shifting of securities in the market.

"The Committee also discussed a suggestion that the Treasury require that some proportion of war loan deposits be secured by Government securities maturing in not more than either six months or one year, but came to no conclusion on this matter. If, however, the Treasury decides to adopt this suggestion, the Committee recommends that such depositaries be exempted from the requirement to the extent of $500,000 or 25 per cent of their war loan deposits, whichever is larger."

Attention was then turned to the actions to be taken by the Federal Open Market Committee to carry out the policies of the Committee which it was felt were desirable in view of the suggestions that had been made with respect to future Treasury financing. All of the members were in agreement that the direction issued to the Federal Reserve Banks on March 1, 1944, with respect to the purchase of Treasury bills should be renewed and that, in order to conform the direction to the present practice, the last sentence of the direction should be changed to provide that the Federal Reserve Banks should make prompt reports of all transactions in Treasury bills to the Manager of the System Open Market Account.

Thereupon, upon motion duly made and seconded, the following direction was approved by unanimous vote, with the understanding that resales of Treasury bills held by the Federal Reserve Banks under option would be for immediate delivery when so requested by the option holder:

> Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of 3/8 per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account.

Reference was made to the action taken by the Committee at its meeting on December 11, 1944, in authorizing the executive committee, in its discretion, to advise the Federal Reserve Banks that, pending further action, bills in the System account would not be allocated to any Federal Reserve Bank in accordance with the existing allocation procedure in an amount which would reduce its reserve ratio below 43 per cent. It was stated that no action had been taken by the executive committee under this authorization.

Chairman Eccles referred to the bill now under consideration by Congress which would reduce to 25 per cent the reserves required to be maintained by the Federal Reserve Banks against deposits and Federal Reserve notes in circulation and stated that, while he could not say at this time when the bill would become law, it might be well for the Committee to consider some reduction in the point below which the reserve ratio of a Reserve Bank would not be reduced by the allocation of securities in the System account on statement and reallocation dates.

Mr. Rouse stated that it did not appear that the average reserve ratio for the System would reach 45 per cent until about the time of the Seventh War Loan Drive, but that the advantage in reducing the minimum now in effect would be that Banks with low reserve ratios would be in a position to take substantial additional amounts of bills which would give them a greater share in the earnings from the System account.

> Upon motion duly made and seconded, and by unanimous vote, it was agreed that, pending another meeting of the Federal Open Market Committee and pursuant to the provisions of paragraph 2(a) of the allocation procedure now in effect, Treasury bills should not be allocated to any Federal Reserve Bank in an amount that would reduce its reserve ratio below a percentage to be fixed by the executive committee of the Federal Open Market Committee, it being understood that the percentage fixed by the executive committee would not be less than 40 per cent.

Mr. Rouse pointed out that paragraph 2(b) of the allocation procedure provided that, between the weekly and month-end adjustments any Bank desiring to restore its reserve ratio to a level above 40 per cent would sell to a Bank or Banks having the highest reserve ratio or ratios a participation or participations in Treasury bills held in its option account for a period of days to expire on the following Wednesday or month end, whichever was earlier, except that such adjustments would be made in the System account in the event that a Bank did not hold sufficient bills in its option account. He said that if the bill to reduce the reserves required to be maintained by Federal Reserve Banks became law it would be desirable to amend the allocation procedure to reduce the 40 per cent limitation to some lower amount, and that consideration might be given to taking such action at this meeting, subject to enactment of the bill, or the matter might be deferred until the next meeting of the Committee, which undoubtedly would be held in the spring or early summer of this year. This point was discussed and it was agreed that no action should be taken before the next meeting of the Committee.

Mr. Rouse stated that, on the basis of the estimates which had been made of the amount of reserves that would have to be supplied by the System before the next meeting of the Federal Open Market Committee was held, it would not be necessary for the Committee to authorize a net increase in the amount of securities in the System account, other than Treasury bills, of more than $1 billion, but that in view of the uncertainties in the situation, including the possible termination of the European phase of the war before the next meeting, it would be better if the limitations in the existing direction to the executive committee to effect transactions in the System account were not changed.

Thereupon, upon motion duly made and seconded and by unanimous vote, the following direction to the executive committee was approved, with the understanding that the limitations contained in the direction would include commitments for purchases and sales of securities for the System account:

That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), 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 for the purpose of maintaining an adequate supply of funds in the market; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) 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 (2) special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury] shall not be increased or decreased by more than $1,500,000,000.

That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of 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 amount of such certificates held in the account at any one time shall not exceed $1,500,000,000.

Chairman Eccles then stated that there were still outstanding certain authorities granted by the Federal Open Market Committee to the Federal Reserve Banks in 1936 and 1937 and that the suggestion had been made that it would be desirable to review these authorities at this time for the purpose of determining whether they should be discontinued or changed in any way.

The first of these was the authority granted to the Federal Reserve Banks at the meeting of the Federal Open Market Committee on May 25, 1936, to make temporary purchases of Government securities under resale agreements for periods not exceeding 15 days, it having been agreed at the time that, if confined to short periods which would be adequate for the accommodations desired, there would be no objection to this practice. It was stated that this authority had not been used by the Federal Reserve Banks for a long time.

Mr. Rouse commented that the only use that he could see to which the authority might be put would be to place funds in the market quickly in the event of an emergency and that, while it might be desirable to continue the authority for that purpose, it was not an important matter.

> Upon motion duly made and seconded, and by unanimous vote, the authority was terminated, effective immediately.

In connection with the above matter, Mr. McLarin stated that he thought that it would be of very material help to a Federal Reserve Bank if it were authorized to maintain a small portfolio of Government securities in an amount not to exceed $200,000 or $250,000 to enable the Reserve Bank to purchase securities directly from and sell securities directly to the smaller member banks. Under the present arrangement, he said, it was necessary to take a bank's order and to make a number of telephone calls to ascertain the best price available and then make the securities or the proceeds from the sale of securities available to the member bank only after a delay of several days. The question was raised whether the service, if provided, could be limited to small member banks or whether it would not be necessary eventually to expand it to serve all member banks and possibly others.

Chairman Eccles stated that this suggestion presented the whole question, which had been discussed on various occasions in the past by the Federal Open Market Committee, of the Federal Reserve Banks undertaking to act as dealers for the purchase and sale of Government securities in their respective districts, and he expressed the opinion that the suggestion should not be adopted unless the Federal Reserve Banks were prepared to go the whole distance of furnishing a market for Government securities in their districts.

The matter was discussed but no action was taken.

On November 20, 1936, the Federal Open Market Committee adopted a resolution authorizing the Federal Reserve Banks, subject to the provisions of Section 14 of the Federal Reserve Act, as amended, and the regulations, conditions, and limitations of the Board of Governors prescribed thereunder, but without further direction or authorization from the Federal Open Market Committee, to purchase and sell at home or abroad cable transfers, and bills of exchange and bankers' acceptances payable in foreign currencies, to the extent that such purchases and sales might be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve Banks in foreign countries. The purpose of this action was to simplify the procedure in connection with the handling of accounts with foreign central banks which are subject to special supervision by the Board of Governors of the Federal Reserve System under Section 14 of the Federal Reserve Act.

Mr. Sproul stated that the need for the authority granted by the resolution still existed, that the small number of accounts abroad placed a limit on use of the authority, and that if the authority were discontinued it would be necessary to get the specific approval of the Federal Open Market Committee for small transactions executed in the management of accounts which the Federal Reserve Banks have on the books of foreign central banks.

There was unanimous agreement that no action should be taken with respect to the resolution at this time.

At the meeting of the Federal Open Market Committee on November 30, 1937, it was decided that, in view of the fact that securities acquired by the Federal Reserve Banks in settlement of claims against closed banks would be in such small amounts as to be unimportant from the standpoint of credit control, the Committee, until otherwise directed by it, would interpose no objection to a Federal Reserve Bank holding any such securities acquired by the Bank or to the sale of such securities wherever such sale was deemed to be advisable by the holding bank. From the information available to the Committee this authority had not been used by the Federal Reserve Banks for a considerable period, and it was suggested that it might well be terminated.

Mr. Gidney expressed the opinion that the authority should be continued as none of the Federal Reserve Banks could foresee when they might be called upon to use it in connection with securities held as collateral for advances to a member bank which had become insolvent because of defalcations or some other unusual situation.

> The matter was discussed in the light of Mr. Gidney's opinion, and it was agreed unanimously that no action should be taken to terminate or amend the authority at this meeting.

A discussion of the time for the next meeting of the Federal Open Market Committee ensued, and it was tentatively agreed that the next meeting should be held June 20 and 21, 1945, with the understanding that the next meeting of the Presidents' Conference would be held on June 18 and 19, 1945, and that any further discussions (other than the discussions to be held tomorrow) of papers prepared by System economists on economic problems and policies in the postwar period that might be decided upon should take place during the days specified for the meeting of the Open Market Committee.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.