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, February 28, 1946, at 9:30 a.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. Vest, Assistant 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. Connell, General Assistant, Office of the Secretary of the Board of Governors

In accordance with the understanding at the meeting of the committee on December 5, 1945, the first item on the agenda for this meeting was the questions with respect to brokers and dealers in Government securities on which action had been deferred at previous meetings of the committee. Copies of a memorandum prepared by Mr. Piser under date of October 15, 1945, relating to these matters were distributed. It was stated that there were four questions remaining to be settled. These were (1) whether the executive committee should be advised of any instance in which the position of a dealer reaches an abnormally high level, of any action taken by the New York Bank regarding the position of a dealer, and of the response by the dealer to this action, (2) whether the executive committee should recognize, at least informally, the present commission of 1/64 of a point on transactions with dealers for the System account in notes and bonds and the present limitation to exceptional cases of transactions in these securities on a net basis, and whether the executive committee should establish a commission of perhaps 0.01 on transactions in certificates, (3) whether the annual statements of condition of qualified dealers and brokers should be required to include certain additional information, and (4) whether the Reserve Bank Presidents should be requested to furnish the executive committee any information they may obtain regarding violations by dealers of the established terms.

The first two questions were discussed on the basis of the comments contained in the memorandum, the comment by Chairman Eccles that under present conditions in the market it would be better if the dealers did not take positions and securities were purchased or sold directly to and from the Federal Reserve Banks, and a statement by Mr. Rouse of the difficulties that might be involved in establishing a maximum position that an individual dealer might take.

Mr. Williams expressed the opinion that an automatic rule in this matter would not result in as good management of the market as discretionary judgment on the part of the Manager of the System Account, particularly if it were understood that the Manager was responsible for the proper conduct of the dealers within the scope of the authority over them.

Mr. Rouse stated that, with one exception, there had been no really serious cases of extended positions on the part of the dealers that would have been reported to the executive committee, that the management of that concern had been changed, and that the situation was being effectively corrected. He also said that if a maximum position were fixed the dealers might take it as an invitation to go to that limit.

Chairman Eccles felt that the executive committee of the Federal Open Market Committee had responsibility for conditions in the market, that there should be reports of the dealers' positions as well as any actions by the dealers that would be adverse to the proper discharge of that responsibility, and that as a guide to the Manager of the System Account a reasonable limitation on dealers' positions should be established.

In a further discussion, Mr. Rouse stated that it would be possible for him to include comments in the weekly report which might be helpful to the members of the committee, and Chairman Eccles suggested that the matter be given further study with a view to a decision with respect to it at the next meeting.

Mr. Rouse asked if it was the desire of the committee that he, as Manager of the System Account, encourage the dealers to reduce their positions, and Chairman Eccles stated that he felt the dealers should sell securities to the extent that they could in the present market to help keep the market from going higher.

With respect to the second question referred to above, Mr. Rouse said he did not think it would be wise to tie the hands of the New York

Bank beyond the existing general understanding that it would not pay more than 1/32 on security transactions and that what he would desire would be some over-all instructions that would give him more leeway in operation.

Chairman Eccles questioned the need for such leeway and this point was discussed.

Mr. Rouse stated that under present conditions he would have no intention of paying more than 1/64 on bond transactions and between .01 and .04 on certificates, according to maturity, but he did not think it would be desirable to restrict operations to that basis.

Chairman Eccles stated that, for reasons which he outlined, he would like to consider the matter from the standpoint of the desirability of paying no commissions.

Mr. Williams suggested that the procedure approved by the committee should be one of such controls as would keep the dealer mechanism alive. Chairman Eccles questioned the need for the dealers in the present situation.

During the course of the discussion, Mr. Evans inquired whether securities were being purchased for the System account at the present time at a commission greater than 1/64, and Mr. Rouse replied in the negative. Mr. Evans said that he would be opposed to the payment of more than 1/64 on System open market transactions.

At the conclusion of the discussion, Chairman Eccles suggested that between now and the next meeting of the executive committee, consideration be given to this matter as well as the two remaining matters mentioned in Mr. Piser's memorandum so that the four questions could be disposed of at the time of the next meeting of the committee, which probably would be held before the next meeting of the Federal Open Market Committee. This suggestion was agreed to.

> 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 January 23, 1946, were approved.

Since the last meeting of the committee the Federal Reserve Bank of New York, in carrying out the directions issued by the executive committee, had sold $674,500,000 of certificates in the market for the purpose of meeting the market demand for these securities and on February 18, 1946, the members of the executive committee, in order to give the Bank authority for further sales, approved an increase from $500 million to $1 billion in the limitation on the authority granted to the Federal Reserve Bank of New York to execute transactions for the System account as contained in paragraph (1) of the direction issued at the meeting of the executive committee on January 23, 1946.

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

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period January 23 to February 27, 1946, inclusive, as reported by the Federal Reserve Bank of New York to the members of the executive committee, were approved, ratified, and confirmed.

Under date of February 11, 1946, Chairman Eccles, with the informal approval of the other members of the executive committee, addressed the following letter to Secretary Vinson relating to a suggested program over the next few months for the retirement of the public debt:

"I am enclosing herewith a memorandum containing the recommendations of the executive committee of the Federal Open Market Committee with respect to the use of a portion of the Treasury cash balance to retire securities that are due or callable through June 1946. I understand that Mr. Bartelt discussed with Mr. Rouse several days ago the handling of the securities that mature or have been called for redemption in March. After Mr. Rouse discussed this problem with the members of the executive committee, it was the view of the committee that it would be desirable to have this matter considered as part of a longer-range program to be followed over the next several months with respect to retirement of the public debt. The enclosed memorandum presents the recommendations of the executive committee."

"SUGGESTED PROGRAM FOR MEETING TREASURY REFUNDING PROBLEMS IN THE BALANCE OF THE FISCAL YEAR 1946

"In the balance of the present fiscal year, a total of 19 billion dollars of Treasury Bonds, Treasury notes, and certificates become due or callable. With the Treasury balance in war loan accounts at 24 billion dollars on January 31, a level more than sufficient to meet normal cash requirements for an extended period of time, the Treasury is presented with a favorable opportunity to effect at least a temporary reduction in outstanding debt, based on the latest budget estimates. Accordingly, in meeting the refunding problem, the executive committee of the Federal Open Market Committee recommends that the Treasury

(a) use 7.6 billion dollars of the present large cash balance to redeem for cash the full amount of the notes and bonds that mature or are redeemable on March 15 and June 15, 1946, a billion of the certificates that mature on March 1, 1946, and 1.5 billion each of the certificates that mature on April 1 and June 1, 1946, and

(b) refund the remainder of maturing certificates into 7/8 per cent one-year certificates.

"The suggested program has the following advantages:

"(1) It would retire part of the bank credit that was "created during the Victory Loan contrary to the announced Treasury policy of raising funds from nonbank investors. The redemptions for cash would substantially offset the oversubscription in the drive. According to the latest figures, two-thirds of the issues that it is herein proposed to be redeemed during the next four months are held by commercial and Federal Reserve Banks, and the proportion probably will increase as the issues approach the redemption dates.

"(2) It would reduce the interest cost of the public debt at an annual rate of 123 million dollars. This saving to the Treasury would be largely at the expense of bank earnings.

"(3) By redeeming the three largest certificate issues in part and refunding the smallest issue in full, the Treasury would maintain a certificate maturity in each month, and this plan would tend to distribute the amount of the maturities more evenly. By limiting redemptions to less than 2 billion dollars on any one date, the Treasury would avoid any major disturbance that might result from the fact that some banks would receive less funds from the Treasury in payment for the redeemed securities held either for its own account or by its depositors than the Treasury would withdraw from it.

"Deposits subject to reserve requirements would increase by the amount of redemptions of securities held by nonbank investors, and reserve balances would decline in the first instance by the amount of redemptions of securities held by the Federal Reserve Banks. Commercial banks could readily obtain additional reserves to meet these needs through Federal Reserve open market operations, which would include, of course, purchases of certificates in amounts and at prices sufficient to maintain the refunding rate on one-year certificates at 7/8 per cent."

Upon motion duly made and seconded, and by unanimous vote, the letter was approved and its transmission to the Secretary of the Treasury was ratified and confirmed.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.