

March 18, 1942  
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MEMORANDUM TO SECRETARY MORGENTHAU FROM MEMBERS OF THE  
EXECUTIVE COMMITTEE OF THE FEDERAL OPEN MARKET COMMITTEE

Members of the executive committee of the Federal Open Market Committee have considered the Treasury's suggestion that the Federal Reserve should increase excess reserves in New York City and should support the bill rate at  $1/4$  of 1 per cent and that the Treasury should issue certificates of indebtedness and should increase the amount of bills outstanding. It appears desirable to increase the amount of bills outstanding and to issue certificates of indebtedness, because a larger amount of short Governments would provide more fluidity in the money market and because certificates would be attractive to smaller banks which have large excess reserves and which are not generally interested in bills. In the press statement announcing the increase in the amount of outstanding short Government obligations, however, it might be preferable to omit reference to idle business funds, because these funds can perhaps best be tapped through the non-negotiable issue previously suggested.

Regarding the suggestion that the Federal Reserve should support the bill rate at  $1/4$  of 1 per cent, a slightly higher rate might serve the purpose of attracting funds of non-banking investors and of banks outside of New York City. The Federal Reserve might, therefore, start purchasing bills at  $1/4$  of 1 per cent for the purpose of allowing an increase in the rate to proceed in an orderly manner. The rate would be held at a maximum of  $3/8$  of 1 per cent by purchasing all offerings at that rate.

Operations for the purpose of maintaining a specified rate would seem to be more satisfactory than operations designed to increase excess reserves, because an increase in excess reserves to some predetermined amount might result in an undesirably low level of rates. Under the proposal to maintain the bill rate, sufficient excess reserves would be provided automatically. Although the Federal Reserve can determine within limits excess reserves of member banks as a whole, it has no power to determine the location of those reserves. Shifts in deposits and the investing and lending policies of individual banks would make it impossible to place an increase in reserves in any designated locality.

