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 Tuesday, June 10, 1941, at 10:05 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Fleming
Mr. Leach
Mr. Davis
Mr. Peyton

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open Market Account

Messrs. Roy A. Young, Sinclair, C. S. Young, and Gilbert, Alternate Members of the Federal Open Market Committee

Messrs. McLarin and Day, Presidents of the Federal Reserve Banks of Atlanta and San Francisco, respectively, and Mr. Leedy, First Vice President of the Federal Reserve Bank of Kansas City

Mr. Clayton, Assistant to the Chairman of the Board of Governors

Mr. Sienkiewicz, Secretary of the Presidents' Conference

Mr. Alfred H. Williams, Class C director (President-elect), of the Federal Reserve Bank of Philadelphia

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 17, 1941, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meeting of the executive committee on March 17, 1941, were approved, ratified, and confirmed.

There were then distributed copies of a report of open market operations prepared at the Federal Reserve Bank of New York covering the period from March 17 to June 7, 1941, both dates inclusive. Mr. Rouse reviewed the principal features of the report and stated that there were no transactions in the account on Monday, June 9.

During the discussion of the report Mr. Young of Boston inquired why few switching operations had been conducted in the account recently as compared with the number of switches that had been made previously. Mr. Rouse responded that there had been relatively fewer opportunities for such switches, that in 1939 and 1940 there were substantial outright purchases and sales for the account which to some extent eliminated the opportunity or need for switches, and that in view of the conditions under which operations in the account were conducted during the recent period, there was little if any reason for shifts. In this connection Mr. Rouse referred to the informal understanding at the last meeting of the Committee that there should be no switches of tax-free securities in the account into taxable issues or vice versa and stated that, while there had been some opportunities for such switches, they had not been made because of this understanding.

> At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period from March 17 to June 9, 1941, inclusive, were approved, ratified, and confirmed.

At this point Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors, entered the room.

Mr. Goldenweiser stated that a review of the present business and credit situation was contained in the current issue of the Federal Reserve Bulletin, which would be placed in the hands of the members of the Federal Open Market Committee today or tomorrow, and that, therefore, he would review only some of the high spots in that situation. He referred to the present and prospective volume of industrial production and the course of prices during the present war as compared with the World War and distributed copies of a chart showing the trend of prices during the two periods. He also referred to the shortages that were developing in certain commodities and other problems that were being created by the defense effort, to the increase in bank assets during the past year or so, and to changes in the holdings of Government securities by Federal agencies and private holders. He stated that the existing situation did not appear to call for any action in the monetary field by the System at the present time, that excess reserves had been decreased temporarily by increases in Treasury balances with the Federal Reserve Banks and increases in currency in circulation, that the System's program should include assistance to the Treasury in connection with Treasury financing in such ways as might be agreed upon, that the System should be given the necessary powers to control installment credit and excess reserves of member banks, that the question of authority over installment sales was now being given consideration, and that he felt that it would be extremely desirable for the System to have power to regulate member bank reserves for the reason that we were facing a period of increase in all kinds of bank credit, that some means of diminishing the pressure of excess reserves was desirable, and that unless this were provided the country was likely to proceed further on the road to inflation on which he felt it had already embarked.

Mr. Williams expressed the opinion that we were going through a revolutionary period during which the controls that were being exercised were not merely supplementing central banking policies but were supplanting them, that as long as the present situation existed the System could not do much to restrict the supply of credit and, therefore, finds itself in a secondary or tertiary role, that the question of specific controls of credit required careful exploration, and that although the System could not exercise general monetary controls at this time, it could be of assistance in Treasury financing and legitimately should be interested in all questions relating to taxation and borrowing and other control measures. He also said that the accepted method prior to the World-War period of preventing inflation, first by the use of monetary controls, second by the use of fiscal policies, and then by direct control measures, had been turned around and the direct control measures were being used first. He added that he was more worried about other policies than he was about price policies or the danger of inflation from that direction, that there was more danger of an income inflation than of a price inflation, that it might be that we are now on the threshold of a substantial rise in prices, and that in any case we should act as though we were.

Copies of Messrs. Goldenweiser's and Williams' statements have been placed in the Committee's files.

There followed a general discussion of some of the problems created by the defense effort in the field of production, wages, and prices; the possible effects of the war on our social and economic system; and the importance of the powers of monetary control in the existing situation.

This discussion was followed by a consideration of the instructions to be issued to the executive committee with regard to transactions in the System open market account and all of the members of the Committee agreed that there had been no change in the situation which would require a change in the form of the resolution adopted at the last meeting of the Federal Open Market Committee.

> Thereupon, upon motion duly made and seconded, the following resolution, which was in the same form as the resolution adopted at the meeting of the Committee on March 17, 1941, was adopted by unanimous vote:

> 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 (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement) as in its judgment from time to time may be advisable in the light of existing conditions; provided that the aggregate amount of securities held in the account at the close of this date shall not be increased or decreased by more than $200,000,000.

Chairman Eccles referred to the request of the Federal Open Market Committee at its last meeting that the executive committee have studies made with respect to desirable changes in the present methods of Treasury financing and that when a draft of program had been prepared the Presidents of the Federal Reserve Banks be called to Washington for the purpose of discussing it, with the understanding that, if a program could be agreed upon, it would be presented to the Treasury for consideration. He stated that, in accordance with that request, the members of the executive committee, and members of the staff, of the Federal Open Market Committee had discussed the matter informally, that the discussions developed certain points of difference as to the suggestions that should be made, that the members of the executive committee also had met with Messrs. Bell, Under Secretary of the Treasury, and Haas, Director of the Division of Research and Statistics of the Treasury Department, and, while the Treasury representatives did not indicate what the views of the Treasury might be as to possible changes in the present methods of financing, they stated that the Treasury had given consideration to the matter and would be glad to discuss it with representatives of the Committee at any time. It was understood, Chairman Eccles said, that the representatives of the Federal Open Market Committee would give further consideration to the matter and if any suggestions were agreed upon another conference with representatives of the Treasury would be held.

Chairman Eccles made the further statement that several drafts of a memorandum on the subject of methods of Treasury financing had been prepared by Mr. Goldenweiser which had been discussed with Messrs. Williams and Rouse, that a draft of memorandum had been sent to the members of the executive committee under date of May 27, 1941, that the memorandum had been subsequently revised by Mr. Goldenweiser, and that Messrs. Williams and Rouse had sent to Mr. Goldenweiser a statement of their views based on the memorandum of May 27. Chairman Eccles added that the revised statement by Mr. Goldenweiser expressed in very general terms the views of the members of the Board of Governors, although they had taken no action on it.

The latest revision of Mr. Goldenweiser's memorandum and the statement by Messrs. Williams and Rouse were then read and copies of both were distributed to those present.

Mr. Goldenweiser's memorandum, after reviewing the situation which made it desirable to consider changes in the present methods of Treasury financing, presented the following suggestions as a basis for discussion:

"I. Tapping of idle funds

"Use of tap issues for reaching individual savings, particularly in small and moderate amounts, has already been adopted in the various forms of non-negotiable savings bonds. It is suggested that consideration be given to offering one or more additional non-negotiable issues designed especially to obtain idle funds from corporations and large individual investors — for example, a two-year tap issue carrying a higher coupon for each semi-annual period that the security is held, redeemable by the holders on thirty days' advance notice.

"II. Short-term issues

"Bills and notes of the familiar types would continue to be used for the purpose of compensating for possible irregularities in the inflow of funds from long-term issues. One other type of issue that is now under consideration might be useful, namely, a certificate issued in anticipation of taxes. Such a certificate would encourage taxpayers to save funds in advance for their tax payments and would diminish the lag between tax legislation and the inflow of funds from additional taxation.

"III. Long-term issues

"For long-term issues the following suggestions are presented:

1. That a definite rate be established for long-term Treasury offerings, with the understanding that it is the policy of the Government not to advance this rate during the emergency. The rate suggested is 2 1/2 per cent. When the public is assured that the rate will not rise, prospective investors will realize that there is nothing to gain by waiting, and a flow into Government securities of funds that have been and will become available for investment may be confidently expected.

2. That the number and variety of new bond issues be kept to the minimum and that securities be so planned as to meet the requirements of different groups of investors, such as insurance companies, other large corporations, trusts, and small savers.

3. That the maturities on successive offerings of new issues be so arranged as to command practically no premiums in the market. This would greatly reduce over-subscriptions and speculation in new issues.

4. That there be no advance notice of the amount that the Treasury wishes to raise at the time of an offering. The Treasury would reserve the right to accept any

"part or all of any subscription. This would practically do away with padding of subscriptions and oversubscriptions and would eliminate any question of whether an issue is a success.

5. That at least one long-term market issue for new money be made available on tap at par plus accrued interest. It could be kept open for a longer or shorter period and could be closed when conditions favor such a course. A new tap issue could then be offered whenever it becomes necessary. From the point of view of investors, tap offerings have the advantage that funds may be invested at any time without waiting for an issue date and from the point of view of the Treasury that there is a more even flow of money, with no pronounced concentration on certain dates.

6. That maturing issues be so handled as gradually to eliminate practically all of the value of rights.

7. In order to assure the success of such a program, an understanding should be reached between the Treasury and the Federal Reserve System to do whatever may be necessary for the smooth operation of the financing, and for reducing to minimum fluctuations in taxable United States bonds. The authorities will have to stand ready to buy in the market such portions of an issue as may be necessary to carry out this policy. They may dispose of securities so purchased when and if market conditions permit.

"<u>Timing of steps in the program</u>

"As to the timing of the different steps in putting these proposals into effect, it is suggested that the public should be informed as soon as feasible of the Government's decision to finance the defense program at rates not exceeding 2 1/2 per cent. The authorities could proceed immediately toward stabilization of the market at around this level. On the next Treasury bond offering the amount of the premium on a new bond issue could be reduced from, say, 1 1/4 points to perhaps 3/4 of a point. This would give notice to holders of maturing issues that the rights' value is to be materially reduced. On the next succeeding issue, perhaps in September, which would presumably include refunding of the December notes, it might be possible to reduce the rights' value further or practically to eliminate it altogether, and to price the new cash offering with practically no premium. At the December issue the policy of not announcing the desired amount might be inaugurated. In the meantime, perhaps in August, a market issue could be offered at tap, that is, be made available until further notice at par and accrued interest."

The statement submitted by Messrs. Williams and Rouse contained a discussion of reasons for their belief that the program suggested in Mr. Goldenweiser's memorandum should be regarded as a series of topics for informal discussion with the Treasury rather than as a statement of a program to be submitted to the Treasury, and that what was needed was a series of meetings with the Treasury and if possible a standardized procedure for regular conferences, at which consideration would be given not only to the technique of Treasury financing but also to the entire field of fiscal and monetary policy.

At 12:55 p.m. the meeting recessed and reconvened at 2:10 p.m. with the same attendance as at the morning session and in addition Mr. Thurston, Special Assistant to the Chairman of the Board of Governors.

Mr. Sproul stated that the question raised by the memoranda before the Committee was whether it should undertake to formulate a definite plan for Treasury financing which would be submitted to the Treasury in the form of a memorandum or whether the Committee should seek an opportunity for a series of conferences with representatives of the Treasury at which all of the points that might be suggested by representatives of the System would be taken up, and that he was satisfied that the best approach from the standpoint of the most satisfactory solution of the problem would be the latter course.

Mr. Davis pointed out that the two memoranda expressed differences as to procedure rather than policy and inquired whether there were any differences of opinion other than those disclosed in the two memoranda and whether, if the subject of continuing conferences with the Treasury were agreed upon, there would be other differences which would prevent the members of the executive committee from agreeing upon the suggestions to be presented for discussion. Chairman Eccles and Mr. Sproul responded that there were such differences and Chairman Eccles said that in his opinion there would be no useful purpose of discussing the matter with representatives of the Treasury unless the Committee had a program to present as a statement of its views which it wished to submit to the Treasury for the purpose of discussion.

In accordance with a suggestion by Mr. McKee, each of the Presidents was then called upon to express his views. These statements indicated differences of opinion as to the procedure that should be followed. The Presidents' comments and the intervening discussion raised numerous questions particularly with respect to the need for substantial changes in present methods of financing; whether, if a change in procedure were desirable, it should be made at this time when the Treasury was faced with the necessity of issuing large amounts of new securities; the alternatives that might be available in addition to those suggested in Mr. Goldenweiser's memorandum; what was meant by a tap issue; whether the program contemplated the offering of a tap issue and other issues at the same time and, if so, whether this was practicable; the effect of a tap issue on the market and on outstanding issues; the desirability of a statement by the Treasury as to the rate at which its long-term financing would be done; the extent to which any commitment by the System to stabilize the market should go; and whether it would be more desirable for the Treasury to undertake the necessary stabilization operations or for the System to accept responsibility for such operations either entirely or in cooperation with the Treasury.

Toward the end of the Presidents' statements Mr. Alfred H. Williams left the meeting.

Several of the Presidents suggested that the Federal Reserve Banks could be of very material assistance to the Treasury in furthering the savings bond campaign and, while there was some question whether the Treasury would welcome an offer of such assistance because of its position that the sale of savings bonds should be entirely voluntary, the Presidents and members of the Board felt that the System is in position to give such assistance, and that an offer of help beyond the mere handling and sale of the securities should be made to the Treasury.

Chairman Eccles suggested that the Presidents, in their separate meeting tomorrow, give consideration to the desirability of formulating a proposal for presentation to the Treasury under which the Federal Reserve Banks would use their facilities in furthering the campaign, and to the appointment of a committee to consider the matter further with the Board and the Treasury.

In connection with this matter, Mr. Davis suggested that commercial banks be permitted to purchase Series F and G Savings Bonds up to the limit of say $10,000 in any one year on the theory that this would add a relatively small amount to bank deposits and would be in the nature of compensation to the banks for services rendered in connection with the sale of savings bonds.

In a further discussion the suggestion was made that the whole problem of Treasury financing be referred back to the executive committee with the understanding that the committee would be free to discuss the matter with representatives of the Treasury, and Mr. Davis suggested that the executive committee be instructed to prepare a statement of the points on which agreement of the members of the Board and the Presidents had been indicated as a starting point for further consideration.

At the conclusion of the discussion of these suggestions, upon motion duly made and seconded, and by unanimous vote, the whole matter was referred again to the executive committee for further study.

Thereupon the meeting adjourned.

Chester Morrill

Secretary.

Approved: M S Eccles

Chairman.