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 Monday, October 18, 1943, at 10:20 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Sproul, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Draper
Mr. Evans
Mr. Paddock
Mr. Young (alternate for Mr. Fleming)
Mr. McLarin
Mr. Day

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Goldenweiser, Economist
Messrs. John H. Williams, MacKenzie, Bryan, and Wheeler, Associate Economists
Mr. Dreibelbis, Assistant General Counsel
Mr. Rouse, Manager of the System Open Market Account
Mr. Clayton, Assistant to the Chairman of the Board of Governors
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. Berntson, Clerk in the Office of the Secretary of the Board of Governors

Messrs. Leach, Davis, and Peyton, alternate members of the Federal Open Market Committee

Messrs. Alfred H. Williams, Leedy, and Gilbert, Presidents of the Federal Reserve Banks of Philadelphia, Kansas City, and Dallas, respectively

Mr. Hays, First Vice President of the Federal Reserve Bank of Cleveland

Messrs. Sienkiewicz, Edmiston, and Upgren, Vice Presidents of the Federal Reserve Banks of Philadelphia, St. Louis, and Minneapolis, respectively

Mr. Langum, Assistant Vice President of the Federal Reserve Bank of Chicago

Messrs. Robb and Rice, Managers of the Research and Statistical Departments at the Federal Reserve Banks of Kansas City and Dallas, respectively

Mr. Kincaid, Consulting Economist at the Federal Reserve Bank of Richmond

Mr. Dolley, Economic Adviser at the Federal Reserve Bank of Dallas

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 28, 1943, 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 meetings of the executive committee held on June 28 and September 7, 1943, were approved, ratified, and confirmed.

During the meeting there were distributed copies of a report prepared by the Federal Reserve Bank of New York of open market operations conducted for the System account during the period June 28 to October 14, 1943, inclusive, and Mr. Rouse discussed the principal features of the report. He also submitted a supplemental report covering operations in the account on October 15 and 16, 1943, and copies of both reports have been placed in the files of the Federal Open Market

Committee.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the System account during the period June 28 to October 16, 1943, inclusive, were approved, ratified, and confirmed.

Prior to this meeting the members of the Federal Open Market Committee and the other Presidents of the Reserve Banks had been furnished copies of a memorandum prepared by Mr. Rouse under date of September 4, 1943, and entitled "The Relationship Between the Federal Reserve Bank of New York and the Dealers in United States Government Securities" and a memorandum prepared by Mr. Piser under date of October 6, 1943, and entitled "Relationship of the Federal Reserve System to Government Security Dealers". Chairman Eccles stated that the executive committee had considered these memoranda at an informal meeting in Washington on October 13, 1943, and that it had been agreed to present the following report to the full Committee:

> After thorough discussion the members of the executive committee reached the conclusion that the existing procedure and relationships established by the New York Bank as described in Mr. Rouse's memorandum of September 4, 1943, should be approved, and that as to the future there are three alternative courses of action that might be taken:
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> 1. The full Committee might give formal approval to the continuation of the existing procedure and relationships established by the New York Bank with the understanding that any proposed change in substance will be submitted to the Committee for approval;
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> 2. The full Committee might take the position that in the future the procedure and relationships should be governed through formal rules and regulations to be adopted by the Committee under its existing powers; or

3. The full Committee might take the position that the whole problem should be reported to Congress with the recommendation that express statutory authority to regulate the operations of dealers in the Government security market be granted.

The executive committee recommends that the full Committee adopt the second alternative.

If this recommendation be approved it is also recommended that the executive committee be instructed to prepare a draft of rules and regulations based upon the existing procedure and relationships for submission to the members of the full Committee for formal action thereon as soon as practicable, with the understanding that, if the executive committee should be of the opinion that any substantial change in, or departure from, the existing procedure or relationships should be embodied in such rules and regulations, the full Committee will again consider the question whether action thereon should be taken without submitting the matter to Congress. It was also understood that the question of the advice to be given the Treasury regarding the Committee's decision would be considered.

Mr. Day inquired why it was believed to be necessary to formalize the relationships with the Government security dealers rather than to leave them on the present informal basis, and Chairman Eccles outlined the principal reasons considered by the executive committee, including (1) that the determination of the relationships with the dealers was a responsibility of the full Committee and (2) that the operations of the System were becoming so large and important in their effect that the Committee should be prepared as a matter of record to justify the procedures followed in the event of outside criticism. He also said that the recommendations of the executive committee did not contemplate any immediate change in the existing relationships or that any publicity would be given to the matter, and that, if after study by the executive committee it was decided that substantial changes in the existing procedure should be made, it would be determined at that time whether these changes should be made by the Federal Open Market Committee under its existing authority or whether the matter should be presented to Congress with a request for authority to regulate the operations of the Government security dealers.

Mr. Ransom stated that, by approval of the transactions in the System account at each meeting of the Federal Open Market Committee, the Committee had tacitly approved the manner in which these operations had been conducted and the relationships of the Bank with the Government security dealers, and that any action to formalize or to change the existing relationships with the dealers would raise the question whether reference to such action should be included in the policy record kept by the Board of Governors pursuant to the last paragraph of Section 10 of the Federal Reserve Act and published in the Board's annual report.

In response to a question from Mr. Ransom, Mr. Dreibelbis expressed the opinion that, if the action related only to the mechanics under which the Federal Reserve Bank of New York and the Manager of the System account executed transactions for the account, it would not be necessary to include a reference to the action in the policy record, but that if the action involved decisions on questions of general policy such a reference would be necessary.

Mr. Day said that the Government security market was sensitive and of increasing importance, that a formalization of the relationships of the System with the dealers might result in injury to the market, and that, therefore, he would be inclined to be very cautious in making any change in the existing situation.

Following a discussion of possible future characteristics of the Government security market and of the growing importance of the System's operations in that market, it was moved and seconded that the recommendation of the executive committee be approved.

This motion was put by the chair and carried unanimously.

Mr. Sproul moved that the Federal Open Market Committee approve the continuance of the existing procedure and relationships as established by the Federal Reserve Bank of New York in order that no question might be raised as to the status of the existing relationships with the Government security dealers pending the further action of the full Committee, and that the executive committee be instructed to prepare a draft of rules and regulations for submission to the full Committee for formal action as soon as practicable.

This motion, having been duly seconded, was put by the chair and carried unanimously.

Mr. Goldenweiser stated that, in accordance with the procedure followed at the last meeting of the Federal Open Market Committee with respect to statements by economists for the Committee, he had arranged for Mr. MacKenzie to make a statement to the Committee on the impact of the war on the industrial situation in the Fourth Federal Reserve

District and for Mr. Wheeler to talk on the manpower problem on the Pacific Coast, after which he (Mr. Goldenweiser) would discuss certain aspects of the price problem and the situation with respect to rates on short-term Government securities. Statements were made in that order, and transcripts thereof have been placed in the files of the Federal Open Market Committee.

Chairman Eccles then called on John H. Williams for any comments he might wish to make. Mr. Williams concurred in a statement made by Mr. Goldenweiser that some action should be taken in connection with the rates on short-term Government securities. He also discussed briefly the question that might be confronted following the war whether a number of relatively unproductive projects should be undertaken for the purpose of achieving full employment or whether we should continue to use improved methods of production developed during the war period notwithstanding the fact that they would not increase employment commensurately.

There was a discussion of some of the questions raised in the statements made by Messrs. MacKenzie and Wheeler, and particular reference was made to the point presented by Mr. Wheeler that postwar employment could not be solved by action within a particular district but would require coordinated consideration and action on a national scale. Comments made in this connection emphasized the necessity for the effective coordination of the regional research studies of the Federal

Reserve Banks.

Thereupon the meeting recessed and reconvened at 2:25 p.m. with the same attendance as at the morning session.

In connection with the discussion of the results of the Third War Loan Drive, copies were distributed of a tabulation prepared in the Board's Division of Research and Statistics under date of October 16, 1943, which indicated that as of the close of October 14, 1943, a total of $18,644,000,000 of securities had been sold during the drive. Mr. Goldenweiser said that the Division of Research and Statistics was preparing a statement on the drive for the next issue of the Federal Reserve Bulletin and that if copies of the statement were not ready for distribution before the Presidents left Washington they would be mailed to them as soon as available.

Reference was made to the extent to which loans had been made during the drive for the purpose of purchasing and carrying Government securities, and Mr. Piser stated that reports indicated that between September 8 and October 6 loans to others than brokers and dealers for purchasing or carrying securities increased by $774,000,000 and that loans to brokers and dealers increased by $892,000,000. There was also a discussion of the extent to which securities sold during the drive had been purchased by banks.

Chairman Eccles expressed the opinion that, if the Treasury were willing to do some additional bank financing between now and the next drive, it would not be necessary to make the drive before April of next year.

Comments were made on changes which, on the basis of experience during the Third War Loan Drive, it was believed would be desirable in the succeeding drive, and it was indicated that all of the Presidents and the members of the Board were agreeable to the members of the executive committee making such suggestions to the Treasury Department at an appropriate time.

In this connection Mr. Davis read a telegram which he, as Chairman of the Presidents' Conference Committee on Fiscal Agency Operations, sent today to Under Secretary of the Treasury Bell who was attending a conference of representatives of the Treasury and the Federal Reserve Banks on fiscal agency matters in Chicago, Illinois. The telegram transmitted a statement approved by the Presidents' Conference in which it was agreed that the difficulty with allocations of securities which was encountered in the last drive would be largely eliminated in the next drive if State, county, and other local quotas were fixed only for individual subscriptions with no quotas for corporate subscriptions except for the nation as a whole, but that if corporate subscriptions were to be included in State, county, and other local quotas certain suggestions should be followed as outlined in the telegram.

Mr. Rouse suggested that the Treasury financing program might be more effective if the next drive, possibly in January, were restricted to individual subscriptions, to be followed, in the order named, by (1) a refunding operation, (2) an offering to savings banks and insurance companies, and (3) the opening of an outstanding issue or issues for corporate subscription.

Chairman Eccles stated that during the course of the next four or five weeks the members of the executive committee should give consideration to the whole problem of Treasury financing policy and prepare a memorandum for use as the basis for further discussions with representatives of the Treasury.

Inquiry was made by Chairman Eccles whether it would be appropriate for the Federal Open Market Committee to endorse the statement of the Presidents' Conference referred to in the telegram sent to Mr. Bell. Mr. Leedy suggested that for the Committee to act on this one aspect of the financing program would emphasize the point out of all relation to its importance. This opinion was unanimously concurred in but it was understood that, in future discussions with representatives of the Treasury, the members of the executive committee would be authorized to say that the statement expressed the views of the members of the Federal Open Market Committee as well as the Presidents of all of the Federal Reserve Banks.

Chairman Eccles then referred to the discussions which members of the executive committee had had since the last meeting of the full Committee with respect to the direct replacement of maturing bills held in the System and option accounts and stated that it had been agreed at the informal conference of the members of the executive committee held on October 13, 1943, that there should be presented at this meeting of the full Committee (1) the substance of the memorandum read by Mr. Sproul at the conference in which he made the suggestions, among others, that the rate on Treasury bills should be increased to 1/2 per cent and that in the existing circumstances the System should be in a position to place bids with the Treasury each week for bills in amounts up to the amount of maturing bills held in the System and option accounts and (2) the suggestion previously made to the Treasury, and renewed by Chairman Eccles for consideration at this meeting, that the Treasury issue a 3/4 per cent 9-month bill instead of continuing the issuance of the existing bills and certificates.

Mr. Sproul stated that the substance of his memorandum was given to the Presidents at the Presidents' Conference in New York on October 15 and 16, 1943. Thereupon Chairman Eccles read the memorandum which had been prepared under date of October 16, 1943, at his request in which were set forth the reasons why, in his opinion, the issuance of 3/4 per cent 9-month bills appeared to be the best solution of the existing situation in the short-term Government security market.

Mr. Sproul stated that he had also proposed to the Presidents a third alternative suggestion that the Treasury issue a 5/8 per cent 4-month bill to replace existing bills. He said that, while he agreed completely that something should be done to increase the rates in the short-term market, he questioned whether the 3/4 per cent bill was the way to do it, since a rate change which appeared to be so substantial might have the effect of disturbing the rates on longer-term securities and since the elimination of the present bill and certificate might look like tampering with machinery which, on the whole, is working successfully, and since these two reactions might result in impairing the confidence of the public to the extent of interfering with the financing program.

Mr. Sproul's statement was followed by a discussion of the relative merits of the three alternative courses of action that had been proposed for making the desired adjustment in short-term rates and there was unanimous agreement that some action to correct the existing situation was necessary. A canvass of the views of the Presidents indicated that, while they were in agreement that the alternative suggestions of a 5/8 per cent 4-month bill (to take the place of existing 3-month bills) or a 3/4 per cent 9-month bill (to take the place of existing bills and certificates of indebtedness) should be presented to the Treasury for decision, there was a majority preference for the issuance of a 5/8 per cent 4-month bill.

At Chairman Eccles' request, copies were distributed of a memorandum addressed to him under date of October 16, 1943 by Messrs. Dreibelbis and Piser which read as follows:

> "In view of the fact that the previously outlined program for the replacement of Treasury bill maturities would, in opinion of counsel, involve the necessity of charging all such purchases against the 5 billion dollar authority for purchasing direct from the Treasury, it appears that the System is faced with two alternatives

"in meeting this problem. First, the Treasury could give the System the privilege of exchanging its weekly maturing bills for an exactly equivalent amount of new bills at 3/8 of one per cent. In this event, the Treasury would reduce the public offering each week by the amount of the System's maturities. If the System's maturities, for example, were 400 million dollars, the public offering would be 600 million. Second, the System could place tenders at 3/8 of one per cent in an amount not exceeding the amount of its weekly maturities. The System would receive the same percentage allotment as would other bidders at the same rate, but the Treasury would give the System the privilege of exchanging maturing bills for whatever amount of the new bills were allotted to it. The attached draft of a press statement contains the reasons for the new procedure; although it is written on the assumption that the second alternative will be followed, it could easily be revised to substitute the first alternative."

Mr. Dreibelbis stated that he had discussed the procedures referred to in the memorandum with counsel for the Treasury and that there was agreement that legally the Treasury had the necessary authority to give the System the privilege of exchanging maturing bills for new bills as would be contemplated if either of the procedures should be adopted. There was unanimous agreement that the second procedure would be the more desirable one.

Mr. Sproul inquired whether the Manager of the System account should undertake to replace maturing bills held in the option accounts with the understanding that bills taken in replacement would be held in the System account, or whether, in the light of counsel's opinion, it would be necessary for the replacements of option bills to be issued to the individual Banks as owners. Mr. Piser stated that this question could be met by the transfer of maturing bills held in the option accounts to the System account with the understanding that a bid for replacement bills would be made for the System account.

There was a discussion of the necessity for a press statement in the event arrangements were made for direct replacement of bill maturities, and it appeared to be the general consensus that a complete statement on the matter should be made, pointing out, however, that the operation involved merely the replacement of maturing securities held by the System.

> At the conclusion of the discussion, upon motion duly made and seconded and by unanimous vote, the executive committee was directed to work out with the Treasury and put into effect an arrangement under which a tender would be made each week for new bills in an amount not exceeding the total amount of maturing bills in the System and option accounts.
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> This action was taken with the understanding that when the arrangement went into effect the executive committee was authorized to issue a statement to the press in such form as in its judgment the circumstances required.

Consideration was then given to the direction to be issued to the executive committee to effect transactions in the System account pending another meeting of the full Committee which it was felt would not be necessary before sometime in January of next year. Messrs. Sproul and Rouse expressed the opinion that the renewal of the existing authority would be adequate to meet any situation that might be expected to arise in that period, inasmuch as a substantial amount of bills would continue to be purchased in the option accounts of the

Federal Reserve Banks.

Thereupon, upon motion duly made and seconded and by unanimous vote, the following direction was approved:

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 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.

This action was taken with the understanding (1) that the limitations contained in the direction were understood to include commitments for purchases or sales of securities for the System account and (2) that, in the event the arrangement worked out for the direct replacement of maturing bills provided for the transfer of such bills held in the option accounts to the System account and the holding of the bills taken in replacement in the System account, the limitations contained in the direction would not apply to such transfers or replacements.

Reference was made to the informal discussions, which had taken place in connection with the possible issuance of a 3/4 per cent Treasury bill, with respect to the question whether any change should be made in the discount rates now in effect at the Federal Reserve Banks on advances secured by Government obligations, and there was unanimous agreement that no suggestion should be made by the Federal Open Market Committee on this matter at this time.

Inquiry was made whether, in the event of a decision of the Treasury to increase the rate on existing bills or to issue 5/8 per cent or 3/4 per cent bills, any change should be made in the outstanding direction to the Federal Reserve Banks to purchase Treasury bills, and it was suggested that, while no action need be taken on the matter at this time, it would be necessary to issue a revised direction at the time action was taken by the Treasury.

> Thereupon, upon motion duly made and seconded and by unanimous vote, it was decided that, in the event action were taken by the Treasury prior to the next meeting of the Committee, the members of the Committee would approve by wire the issuance of a direction to the Federal Reserve Banks to purchase all Treasury bills that might be offered to such Banks on a discount basis at the rate at which such bills were issued by the Treasury, 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, would sell to him Treasury bills of like amount and maturity at the same rate of discount.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.