

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 Wednesday, October 17, 1945, at 10:15 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. Hardy, Hostetler, Irons, Sienkiewicz,
Thomas, and John H. Williams, Associate
Economists
Mr. Wyatt, General Counsel
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

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

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

Chairman Eccles stated that it would be necessary for him to leave the meeting at 10:50 a.m. to attend a meeting of the Finance Subcommittee

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of the National Advisory Council on International Monetary and Financial Problems which had under consideration important aspects of the financial assistance to be given by this country to Great Britain. At his request, it was understood that a discussion of Treasury financing and open market policies would be deferred until the afternoon session of this meeting.

On July 5, 1945, in view of the appointment of Mr. Morrill, formerly Secretary of the Board of Governors, as Special Adviser to the Board, the members of the Federal Open Market Committee agreed that, notwithstanding the applicable provisions of the by-laws of the Federal Open Market Committee, Mr. Morrill should be continued as Secretary of the Committee pending the next meeting when the necessary formal action could be taken.

Upon motion duly made and seconded, it was voted unanimously (1) to approve, ratify, and confirm the informal action of the members of the Federal Open Market Committee on July 5, 1945, with respect to the Secretary of the Committee, and (2) to continue Mr. Morrill as Secretary until the first meeting of the Federal Open Market Committee after February 28, 1946, notwithstanding the first sentence of section 2 of article II of the by-laws of the Federal Open Market Committee which provides that the Secretary of the Board of Governors shall be Secretary of the Committee.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 20, 1945, 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 June 20, 1945, were approved, ratified, and confirmed.

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Mr. Rouse discussed the important points in a report of open market operations prepared by the Federal Reserve Bank of New York covering the period from June 21, 1945, to October 11, 1945, inclusive. During the meeting copies of the report were distributed. Mr. Rouse also reviewed briefly a supplementary report prepared by the Federal Reserve Bank of New York covering operations during the period October 12-16, 1945, inclusive. 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 from June 20, 1945, to October 16, 1945, inclusive, were approved, ratified, and confirmed.

Mr. McKee referred to the outstanding permissions granted by the Board of Governors to certain member banks to accept drafts and bills of exchange up to 100 per cent of their unimpaired capital and surplus, and inquired whether it would be advisable at this time, when few if any banks had acceptances outstanding in an amount in excess of 50 per cent of their unimpaired capital and surplus, to revoke the outstanding permission and require new applications for authority to accept up to 100 per cent of capital and surplus, which would be considered by the Board on the basis of the surrounding circumstances in each individual case.

Mr. Rouse said that the Committee on Bankers' Acceptances of the Presidents' Conference had been studying the question what should be done with respect to bankers' acceptances and the acceptance market and that a report would be submitted to the Presidents' Conference which could also be sent to the Board of Governors.

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All of the members of the Federal Open Market Committee and the Presidents of the Federal Reserve Banks were in agreement that the present was an appropriate time to review the whole situation and determine what, if any, action should be taken.

In August 1945 Mr. Rouse received a telephone request from Mr. Bell, Under Secretary of the Treasury, that the name of Fiscal Assistant Secretary of the Treasury Bartelt be added to the list receiving the weekly report of open market operations and money market conditions prepared by the Federal Reserve Bank of New York. Since the Federal Open Market Committee at its meeting on May 15, 1943, decided that the report should be sent only to a restricted list, the request was cleared with Mr. Ransom in the absence of Messrs. Eccles and Sproul, and the name of Mr. Bartelt was added to the list.

Upon motion duly made and seconded, and by unanimous vote, the addition of Mr. Bartelt to the list receiving the weekly report was approved, ratified, and confirmed.

Chairman Eccles then called for the reports of the Economists and Mr. Goldenweiser stated that, inasmuch as he had been out of the country for approximately three months and was somewhat out of touch with the existing situation, he had asked Mr. Thomas to make the principal statement.

Mr. Thomas presented a statement on Federal Reserve policies in the transition period and his statement was followed by comments by Messrs. Goldenweiser, John H. Williams, Hardy, and Sienkiewicz. Copies of all of the statements have been placed in the files of the Federal Open Market Committee.

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During the course of Mr. Thomas' statement Chairman Eccles left the meeting.

Following a general discussion of questions raised by the Economists' statements, the meeting recessed and reconvened at 2:15 p.m. with the same attendance as at the beginning of the morning session and, in addition, Mr. Thurston, Assistant to the Chairman of the Board of Governors.

Chairman Eccles reviewed the discussions which members of the executive committee had had with representatives of the Treasury since the meeting of the Federal Open Market Committee on June 20, 1945, including the discussions which preceded the submission of the memorandum on Treasury financing which was sent to Secretary Morgenthau on July 9, 1945, and the suggestions that were made to the Secretary of the Treasury by Messrs. Eccles and Sproul on August 22, 1945, with respect to arrangements to be made and the securities to be offered in connection with the Victory Drive.

Chairman Eccles stated that at the meeting of the executive committee this morning all of the members of the committee felt that no change could be made in Treasury financing policies or System monetary and credit policies until after the Victory Drive, but that it should be understood that after the Drive the executive committee would continue its discussions with the Treasury on the question of policies which should be adopted for the reconversion and postwar periods. Chairman Eccles also said that he was satisfied that sometime after the Victory Drive was over

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members or committees of Congress would want to look into the effects of war financing on the credit and monetary situation of this country and particularly on the earning position of banks, and that the Federal Open Market Committee should continue the studies which were being made so that it would be in a position to suggest a practicable solution to the difficult problems which will lie ahead because of the large volume of Government securities outstanding.

There was unanimous agreement on the part of the members of the Committee that the course suggested by the executive committee should be followed.

Mr. Sproul inquired whether there was anything that could be learned from the experiences of foreign central banking and governmental authorities that would be helpful in the solution of the problems facing the Treasury and the System. Mr. Goldenweiser said that steps taken by certain European countries had been effective but that they were much more drastic than could be undertaken here.

In response to an inquiry from Mr. McKee as to the steps to be taken by the Federal Reserve Banks to prevent speculative purchases of securities during the Victory Drive, Mr. Sproul stated that the Presidents had discussed this matter with Mr. Bell at the meeting of the Presidents' Conference yesterday, that at that time Mr. Bell was asked whether he could give the Presidents any definite instructions with respect to the kind of policing job the Treasury wanted the Federal Reserve Banks to undertake, but that Mr. Bell was not in a position to make a definite

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reply. Mr. Sproul also said that it appeared that the Federal Reserve Banks were in about the same position as in the Seventh War Loan Drive and were faced with a policing problem which, because of reliance on a certain amount of roll-over purchases and indirect bank buying in order to make the Drive a success, was an impossible task.

Inasmuch as it was felt that no change should be made in Treasury financing or System open market policies until after the Victory Drive was over, there was unanimous agreement that no action should be taken at this time to change the direction issued to the Federal Reserve Banks at the meeting of the Federal Open Market Committee on March 1, 1945, with respect to the purchase of Treasury bills at a discount rate of $3/8$ per cent per annum.

In connection with the authority to be granted to the executive committee to execute transactions for the System open market account, Mr. Rouse stated that it was expected that it would be necessary between now and the end of the Victory Drive for the System to purchase \$1,500,000,000 or more of securities for the purpose of providing necessary bank reserves and that if the existing authority to the executive committee were renewed it was believed that that would be all that would be required to meet the situation until the next meeting of the Committee even if the meeting were not held until the end of February of next year.

There was no disagreement with Mr. Rouse's suggestion and 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:

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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 \$2,000,000,000.

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.

Reference was made to the fact that the amendment to Section 14(b) of the Federal Reserve Act which was contained in the Second War Powers Act and which authorized the Federal Reserve Banks to purchase directly from the Treasury up to \$5 billion of Government securities, would expire at the end of this year, and inquiry was made as to what steps were being taken to have the authority renewed.

Mr. Morrill stated that it was understood that Mr. Snyder, Director of War Mobilization and Reconversion, would go before the Judiciary Committee of the House of Representatives in the very near future and request a renewal of certain of the provisions of the Second War Powers Act including the provision above referred to and that while it might not be

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possible to get the authority extended for an entire year it was likely that something less than that would be acceptable.

Chairman Eccles stated that if necessary he would also discuss the matter with Secretary of the Treasury Vinson.

It was agreed unanimously by the members of the Committee that in the absence of unforeseen developments it was not likely that another meeting of the full Committee would be necessary before February 28 and March 1 of next year, that it should be understood that the executive committee would continue its discussions with the Treasury as agreed upon earlier during this meeting, and that, if at any time the executive committee felt that a meeting of the full Committee should be held, such a meeting would be called.

Thereupon the meeting adjourned.

Orster Morrie
Secretary.

Approved:

W. A. Eccles
Chairman.