

TWENTY-EIGHTH

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1941

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RECORD OF POLICY ACTIONS  
FEDERAL OPEN MARKET COMMITTEE

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MEETING ON MARCH 17, 1941

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Draper, Mr. Fleming, Mr. Leach, Mr. Peyton, Mr. C. S. Young (Alternate for Mr. Davis who had been selected by the Federal Reserve Banks of Chicago and St. Louis as a representative member of the Federal Open Market Committee, but who had not yet assumed his duties).

Upon motion duly made and seconded, the following resolution, which was in the same form as the resolution adopted at the meeting of the Federal Open Market Committee on December 18, 1940, 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.”

When this meeting of the Federal Open Market Committee was held the unsettled conditions resulting from the war, which are discussed elsewhere in this report, continued to exist and were becoming more intensified. In these circumstances, the members of the Committee were agreed that it was essential that its executive committee continue to be in a position to act in accordance with its best judgment within the limits established by the above resolution and in the light of developments from time to time and that, therefore, the existing authority of the executive committee should be renewed.

During the discussion of the resolution, question was raised whether, because of possible emergencies that might develop, the \$200,000,000 limit in the resolution should be increased, but there was unanimous agreement that if it should appear likely that occasion would arise for the purchase or sale of securities beyond that limit another meeting of the Committee should be called.

MEETING ON JUNE 10, 1941

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

Upon motion duly made and seconded, and by unanimous vote, the following resolution was adopted:

“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."

This resolution, which was in the same form as the resolution approved at the two previous meetings of the Federal Open Market Committee, was adopted for substantially the same reasons as prompted the earlier actions.

#### MEETING ON SEPTEMBER 27, 1941

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

Upon motion duly made and seconded, the following resolution 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."

The action of the Committee on this resolution was taken in the light of further developments in the war situation, the action of the Board of Governors of the Federal Reserve System on September 23, 1941, to increase reserve requirements of member banks, effective November 1, 1941, and other steps that had been taken or had been suggested to finance the defense program and to combat inflationary tendencies. It was recognized by the Committee that the increase in required reserves of member banks might cause some liquidation in bank holdings of Government securities over the next few weeks, and that the System might be called upon to purchase further amounts of securities to meet this condition as well as possible further market disturbances resulting from the war. There was unanimous agreement, however, that, in the absence of unforeseen developments, the situation could be met by continuing the authority of the executive committee in the same form as that granted at the three previous meetings of the full Committee.

#### MEETING ON DECEMBER 12, 1941

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

On December 8, 1941, at the request of the members of the executive committee, the members of the Federal Open Market Committee approved an increase from \$200,000,000 to \$400,000,000 in the limit on the authority granted to the executive committee to increase or decrease the total amount of securities held in the System account.

At this meeting, upon motion duly made and seconded, and by unanimous vote, the action of the members of the Federal Open Market Committee as stated above was approved, ratified and confirmed.

Following the attack by Japan on the territory of Hawaii, the Pacific island possessions of the United States, and the Philippine Islands, members of the executive committee met and decided that, in order that it might be in a position to take whatever action was necessary in an effort to prevent disorderly conditions in the Government securities market that might otherwise develop as a result of the entry of the United States into the war, the members of the Federal Open Market Committee should be requested to approve an increase to \$400,000,000 in the limit of the authority of the executive committee to increase or decrease the total amount of securities held in the System account. The members of the Federal Open Market Committee who were not members of the executive committee were called by telephone on December 8 and there was unanimous agreement that the enlarged authority should be granted for the purpose stated. The securities purchased for the System account during the week following the outbreak of war included \$45,270,000 of the new 1951-1955 and 1967-1972 bonds, and \$12,370,000 of Treasury bills, \$2,000,000 of which were resold during the week. Purchases of \$13,700,000 of various issues of bonds that were in supply in the market were also made against the sale of a like amount of bonds that were in demand.

Upon motion duly made and seconded, the following resolution was adopted by unanimous vote, with the understanding that, when the market recovered and conditions justified, the securities added to the System account during the current week would be resold:

"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 \$500,000,000."

This resolution was in the same form as the resolution adopted at the four previous meetings of the Committee except that it increased from \$200,000,000 to \$500,000,000 the amount by which the aggregate amount of securities held in the System account could be increased or decreased. On the day this meeting was held the indications were that the market's reaction to the outbreak of war would not be a serious one, but because of the uncertainty in the general picture and the possibility that further war developments might call for substantial purchases of securities for the System open market account, the Committee was of the opinion that broader authority should be vested in the executive committee to take such action as in its judgment might be required by any conditions that might arise, it being understood that if it should appear that authority was needed beyond the limit granted in the resolution another meeting of the Federal Open Market Committee should be called.