

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, March 20, 1940, at 10:10 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Draper
Mr. Sinclair
Mr. Parker
Mr. Schaller
Mr. Day

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
Mr. Thurston, Special Assistant to the
Chairman of the Board of Governors

Messrs. Young, Fleming, Martin, and Peyton,
Alternate Members of the Federal Open
Market Committee

Messrs. Hamilton and Gilbert, Presidents of
the Federal Reserve Banks of Kansas City
and Dallas, respectively

The Secretary reported that records of the election for the period of one year commencing March 1, 1940, of members and alternate members of the Federal Open Market Committee representing the Federal Reserve banks had been received in the office of the Secretary of the Committee, that each newly elected member and alternate member had executed the required oath of office (with the exception of Messrs.

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Leach and Martin who shortly would execute their oaths of office as alternate members), and that it was the opinion of the Committee's counsel on the basis of the records of election that the following members and alternate members were legally qualified to serve:

George L. Harrison, President of the Federal Reserve Bank of New York, with Roy A. Young, President of the Federal Reserve Bank of Boston, as alternate member;

John S. Sinclair, President of the Federal Reserve Bank of Philadelphia, with M. J. Fleming, President of the Federal Reserve Bank of Cleveland, as alternate member;

Robert S. Parker, President of the Federal Reserve Bank of Atlanta, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

George J. Schaller, President of the Federal Reserve Bank of Chicago, with Wm. McC. Martin, President of the Federal Reserve Bank of St. Louis, as alternate member;

Wm. A. Day, President of the Federal Reserve Bank of San Francisco, with John N. Peyton, President of the Federal Reserve Bank of Minneapolis, as alternate member.

Upon motion duly made and seconded, the following officers of the Federal Open Market Committee were reelected by unanimous votes to serve until the election of their successors at the first meeting of the Committee after March 1, 1941.

Marriner S. Eccles, Chairman
George L. Harrison, Vice Chairman
S. R. Carpenter, Assistant Secretary
E. A. Goldenweiser, Economist
John H. Williams, Associate Economist
Walter Wyatt, General Counsel
J. P. Dreibelbis, Assistant General Counsel

Upon motion duly made and seconded, and by unanimous vote, the Committee selected the Federal Reserve Bank of New York to execute transactions for the System Open Market Account until the adjournment of the first meeting of the Committee after March 1, 1941.

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Mr. Harrison stated that he proposed to recommend to the board of directors of the Federal Reserve Bank of New York the selection of R. G. Rouse as Manager of the System Open Market Account.

Upon motion duly made and seconded, and by unanimous vote, the Committee approved the selection of Mr. Rouse as Manager of the System Open Market Account in the event of his reappointment by the board of directors of the Federal Reserve Bank of New York to act in that capacity.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairman of the Federal Open Market Committee (who, under the provisions of the by-laws, is also chairman of the executive committee) as members and alternate members of the executive committee until the first meeting of the Federal Open Market Committee after March 1, 1941:

Members

M. S. Szymczak
Chester C. Davis
George L. Harrison
John S. Sinclair

Alternate Members

Ernest G. Draper
Ronald Ransom
John K. McKee
(To serve in the order
named as alternates for
Messrs. Eccles, Szymczak,
and Davis)

George J. Schaller
Robert S. Parker
(To serve in the order
named as alternates for
Messrs. Harrison and
Sinclair)

Mr. Dreibelbis withdrew from the meeting at this point.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the

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meeting of the Federal Open Market Committee held on December 13, 1939, 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 December 13, 1939, were approved, ratified and confirmed.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System Open Market Account for the period from December 13, 1939 to March 19, 1940, inclusive, as reported by Mr. Rouse at the meeting of the executive committee of the Federal Open Market Committee which immediately preceded this meeting, were approved, ratified and confirmed.

Statements were then made by Messrs. Goldenweiser and Williams with respect to the current business situation and copies of their statements have been placed in the Committee's files. Both statements reached the general conclusion that while there was evidence of continuing decline in business activity, which might go somewhat further, the pace of the decline had considerably diminished in recent weeks. Both expressed skepticism of the views which have been voiced by some economists, based largely upon inventory accumulation following the outbreak of the war, that there would be a substantial further decline in business from current levels.

At the conclusion of his statement Mr. Goldenweiser referred to the change which he considered as having taken place in the primary

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purpose of open market operations and suggested that the Committee undertake to define its responsibilities under existing circumstances and to formulate a statement of the principles which should govern its operations. Mr. Ransom suggested that Mr. Goldenweiser be asked to prepare with the assistance of such other members of the staff of the Committee as he may desire to call upon, a draft of a statement of suggested responsibilities and principles for submission to the members of the Federal Open Market Committee for consideration at its next meeting.

Mr. Dreibelbis returned to the meeting at this point.

During the discussion of Mr. Ransom's suggestion, Mr. Harrison briefly reviewed the history of open market operations, commenting that since helping to maintain orderly conditions in the Government securities market has been a primary objective of policy, the emphasis has been placed on buying and not on selling. He stated that it is very human to regard rising markets as orderly and falling markets as disorderly, and that in markets such as we have had recently it has been necessary to buy substantially greater amounts to resist declines than have needed to be sold to restrain sharp rises. Mr. Harrison then suggested that open market policy, under present circumstances, might well include the selling of securities for the purpose of disposing of purchases previously made on the decline, whenever the market would absorb such sales, instead of waiting for disorderly conditions in rising

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markets to force sales.

Chairman Eccles referred to the fact that dealers in the Government securities market act in dual capacities, being both dealers and brokers, and expressed the opinion that this tends to increase rather than diminish fluctuations in the market and therefore to create a problem which should be considered by the Committee. Mr. Harrison stated that he had understood that the members of the Committee in Washington were giving some consideration to the question raised by Chairman Eccles, that there had been drafted at the New York Bank a preliminary report on the relationships of dealers to the market, and that when the report was completed he would send a copy to the other members of the Committee.

At Mr. Harrison's request, Mr. Rouse reviewed briefly the activities of the dealers in the market just before and after the recent announcement of the refunding of Treasury notes which mature on June 15, 1940. Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors, joined the meeting at this point and there was a discussion of the market position taken by the dealers since the Treasury announcement.

Chairman Eccles suggested that a committee of three be appointed to study the whole question of the responsibilities of the Federal Open Market Committee with respect to the Government securities market as well as the question of the relations of the dealers to the market.

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In connection with the discussion of the latter point Mr. Young said that it had been the practice of the Federal Reserve Bank of Minneapolis while he was Governor of the bank to buy and sell securities for the account of member banks, a practice which was not followed by the Boston Bank, and that whenever a bank inquired with respect to the purchase or sale of securities the Boston Bank gave it a list of several dealers. Most of the Presidents of the other Federal Reserve banks stated that it was the present practice of their banks to buy and sell Government securities for the account of member banks.

At the conclusion of the discussion Mr. Szymczak moved that the Chairman appoint a committee of three to make the study suggested by him.

Mr. Szymczak's motion having been duly seconded was put by the Chair and carried unanimously.

(Secretary's Note: Following the meeting Chairman Eccles appointed Mr. Ransom as Chairman and Messrs. Harrison and Davis as members of the committee, with Mr. Sinclair as alternate for Mr. Harrison.)

At 1:10 p.m. the meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the conclusion of the morning session except that Messrs. Young and Piser were not present.

Mr. Harrison stated that, in the absence of a change in open market policy, there appeared to be no need for a change in the resolution adopted at the last meeting of the Federal Open Market Committee

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directing the executive committee to execute transactions in the System Account. He added that in the more recent period there had been occasions when shifts might have been made between maturities in the System Account which might have been desirable but for which no definite statement of necessity could be made, that these shifts had not been made for the reason that it was felt that, without first discussing the matter with the members of the executive committee, such action should not be taken unless there was more apparent reason therefor, and that the bank would like to feel that the Committee would be liberal in allowing the bank to make shifts of this character when they could be made without disadvantage to the System Account. This point was discussed and Mr. Harrison stated that when another occasion for such a shift was presented the New York Bank would present the facts to the members of the executive committee.

Mr. McKee stated that it appeared that shifts may be made in the account in larger amounts in the future than in the recent past for the purpose of exercising a steadying influence in the market, that the securities taken in such transactions might be at high prices, and that he would like to have consideration given to the use of the profits on all sales involved in shift transactions for the purpose of writing down the book value of the replacement securities purchased. He said that he was not ready to make this suggestion with respect to profits from outright sales from the System Account but

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that inasmuch as the premium on securities held in the Account now exceeded \$42,000,000 he was inclined to the opinion that profits on shifts should be used to write down the cost of new securities acquired as a means of preventing the growth of the premium account by the amount of profits resulting from shifts.

Chairman Eccles referred to the fact that it had been some time since a review was made of the basis for the allocation of securities in the System Account and suggested that Messrs. Smead and Rouse be requested to study the allocation formula as well as the suggestion made by Mr. McKee with respect to the treatment of profits on shifts in the Account.

During the consideration of this matter Messrs. Smead, Chief of the Division of Bank Operations of the Board of Governors, and Piser joined the meeting and at the conclusion of the discussion Messrs. Smead and Rouse were requested to study the present basis for allocation of securities in the Account and the accounting procedure followed in connection with the Account, to make a report at the next meeting of the Federal Open Market Committee which would include a statement of the various accounting procedures that might be adopted, and to be prepared to make recommendations as to the procedure that should be followed.

Thereupon Mr. Harrison moved the adoption of the following resolution:

"That the executive committee be directed until

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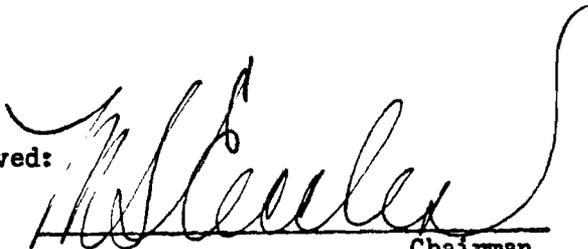
"otherwise directed by the Federal Open Market Committee to arrange for such transactions for the System Open Market Account (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement) as in its judgment from time to time may be necessary for the purpose of exercising an influence toward maintaining orderly market conditions; provided that the aggregate amount of securities held in the Account at the close of this date shall not be increased nor decreased by more than \$500,000,000."

Mr. Harrison's motion, having been duly seconded, was put by the chair and carried unanimously.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.