

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, February 28, 1938, at 3:45 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Sinclair
Mr. McKinney
Mr. Martin
Mr. Day

Mr. Morrill, Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Burgess, Manager of the System Open Market Account
Mr. Carpenter, Assistant Secretary of the Board of Governors of the Federal Reserve System

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on November 29, November 30, and December 1, 1937, 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 on November 30-December 1, and December 13, 1937, were approved, ratified and confirmed.

Mr. Burgess referred to the report submitted by the Federal Reserve Bank of New York under date of February 24, 1938, of transactions effected in the System open market account since the last meeting of the Federal Open Market Committee, and outlined briefly the transactions

2/28/38

-2-

which had taken place since February 24 and up to the close of business February 28, 1938. The transactions and the resulting changes in the maturities of securities held in the System account were discussed, including particularly the reduction which had taken place in the System's holdings of longer term bonds.

During the discussion, Mr. Young, President of the Federal Reserve Bank of Boston, joined the meeting as an alternate for Mr. Harrison who was unable to attend the meeting because of illness.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account since November 29, 1937, and up to the close of business February 28, 1938, were approved, ratified and confirmed.

Attention was directed to the memorandum which had been prepared by Mr. Williams in response to an informal request of the members of the Federal Open Market Committee on the subject "Did the Raising of Reserve Requirements Cause the Depression?" Copies of a draft of the memorandum had been sent to the members of the Committee by Mr. Williams under date of February 11, 1938, at which time he stated that he was giving consideration to adding another section to the memorandum and that the memorandum was only in draft form. At this meeting he stated that, after considering the matter further, he had decided not to make any further addition to the memorandum, as the subject matter of the contemplated additional section could be treated more appropriately in an entirely separate memorandum, and that, therefore, he

2/28/38

-3-

wished to submit the memorandum in the form in which it was sent to the members of the Committee on February 11.

After a discussion of various sections of the memorandum, upon motion duly made and seconded, it was voted unanimously (1) to accept and file the report, with the understanding that the conclusions set forth therein did not necessarily represent the views of the members of the Federal Open Market Committee, and (2) to request Mr. Williams to prepare, for submission to the members of the Committee before the next meeting of the Federal Open Market Committee, the second memorandum covering the material which he had contemplated putting in a fourth section of the report.

In taking this action it was agreed that the Secretary should send under confidential cover to the Presidents who are not members of the Federal Open Market Committee copies of the memorandum submitted by Mr. Williams at this meeting, and, when completed, copies of the second memorandum to be prepared by him.

Reference was then made to the action taken at the meeting of the Federal Open Market Committee on November 30, 1937, when Chairman Eccles was requested to appoint a special committee to consider and submit a recommendation to the full Committee as to the position to be taken with respect to the extent, if any, to which the Presidents and boards of directors of the Federal reserve banks should be advised of discussions and actions of the Federal Open Market Committee. On behalf of the committee (Messrs. Szymczak, McKee and Sinclair) Mr. Szymczak

2/28/38

-4-

stated that the committee had met on various occasions and decided to submit to the Federal Open Market Committee the following recommendations:

1. That the Presidents of the Federal reserve banks who are not members of the Federal Open Market Committee be invited to the preliminary discussions at the time of the regular meetings of the Federal Open Market Committee for advice and information. Thus the Presidents' Conference would precede or follow the regular meetings of the Federal Open Market Committee.
2. That the Federal Open Market Committee consider the adoption of a method by which members of the Federal Open Market Committee may freely discuss matters considered and actions taken at meetings of the Committee with the Presidents of the Federal reserve banks who are not members of the Committee. The method to be adopted should be consistent with the provisions of the rules and regulations of the Federal Open Market Committee.

In explanation of the second recommendation, Mr. Szymczak stated that the committee had not reached a unanimous decision on a recommendation as to the method by which the Presidents might be advised of discussions and actions of the Federal Open Market Committee, but were unanimously of the opinion that the question of giving such information to the directors of the Federal reserve banks should not be raised at this time.

Upon motion duly made and seconded,
the first recommendation was approved
unanimously.

In connection with the discussion of the second recommendation,

2/28/38

-5-

reference was made to section 6 of Article I of the by-laws of the Federal Open Market Committee which provides that proceedings, deliberations, discussions and actions of the Committee, except as required by law and except as authorized by the Committee, shall be strictly confidential, and Mr. Young stated that he felt that the section was unduly restrictive, that he was not willing to be placed in the position of being unable to discuss with his directors matters relating to the Federal Open Market Committee and its deliberations and actions, and that the section should be amended.

There followed a general discussion of the question raised by Mr. Young, at the conclusion of which, upon motion duly made and seconded, the following resolution was adopted by unanimous vote:

RESOLVED, That the members of the Federal Open Market Committee be authorized to discuss in confidence with the President of any Federal reserve bank the matters considered and actions taken at meetings of the Committee and its executive committee.

Mr. Young stated that, while he had voted for the resolution, he wished again to make it clear that he did not approve the section of the by-laws of the Federal Open Market Committee referred to above.

Mr. Sinclair moved that the Committee during its session tomorrow consider the appointment of a special committee to study section 6 of Article I of the by-laws of the Federal Open Market Committee and to submit a report and recommendation as to changes in the section at the next meeting of the Federal Open Market Committee.

2/28/38

-6-

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

Thereupon the meeting recessed, with the understanding that the next session would be held on March 1 at 11 a.m.

Chester Morrie
Secretary.

Approved:

W. Sinclair
Chairman.