The meeting of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Friday, April 22, 1938, at 10:35 a.m.

PRESENT: Mr. Harrison, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Draper
Mr. Sinclair
Mr. Newton
Mr. Schaller
Mr. Peyton

Mr. Morrill, Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors

Mr. Ransom referred to the fact that since action was taken by the Federal Open Market Committee at its meeting on March 1 in appointing Messrs. McKee and Ransom as alternates for Messrs. Eccles, Szymczak and Davis as members of the executive committee of the Federal Open Market Committee Mr. Draper had been appointed a member of the Board.

Thereupon Mr. Ransom moved that Mr. Draper be selected as the first alternate for members of the Board on the executive committee so that the alternates for such members of the executive committee would serve in the following order:

Mr. Draper
Mr. McKee
Mr. Ransom

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

Mr. Harrison stated that, in view of the discussions at the meeting yesterday, he had instructed Mr. Burgess, Manager of the System open market account who had returned to New York following the meeting yesterday, to effect no transactions in the system open market account today until further instructions were received from the Committee, that the market at the present time was from 4/32's to 5/32's higher than yesterday's closing prices, and that if, in these circumstances, the Committee felt that Mr. Burgess should be given different instructions it was suggested that the Committee determine the instructions that should be issued.

Upon motion duly made and seconded, and by unanimous vote, the instructions given by Mr. Harrison to Mr. Burgess were approved, ratified and confirmed.

Mr. Harrison then presented the following resolution and moved that it be adopted. Mr. Harrison's motion was duly seconded:

In view of the fact that the present and prospective amounts of excess reserves of member banks are tending to make it more difficult for the System, by means of shifts in the maturities in the open market account, to exercise its influence towards orderliness in the Government securities market

VOTED that, until otherwise authorized or directed by the Committee, and in addition to the authority to make shifts in the maturities in the system open market account, the executive committee be authorized to permit fluctuations in the total amount of the account in order more effectively, with the means available and in the light of current conditions, to exert its influence towards orderly conditions in the Government bond market, provided, however, that the account shall not be increased or decreased by more than $200,000,000 from the present level of the account.

At Mr. Ransom's request, the following draft of resolution was read:

> In view of the fact that actions of the Treasury and the Board of Governors in pursuance of the program recently adopted by the Government for the encouragement of business recovery have resulted in the creation of a large volume of actual and prospective excess reserves; and of the further fact that these actions have entirely changed the situation in the money market, it is the judgment of the Federal Open Market Committee that interest rates and bond yields should be permitted to adjust to the new conditions. Consequently, it is
>
> > VOTED that the executive committee is directed to maintain the system's open market account at its present level until the next meeting of the Federal Open Market Committee, except that, in case it becomes impossible to replace maturities in the account with other securities having a maturity not exceeding two years without paying a premium above a no-yield basis, the executive committee is authorized to permit the account to fall below its present level by an amount not exceeding $________.

After some consideration of the differences between the two resolutions further discussion thereof was deferred until Chairman Eccles, who was necessarily absent at the beginning of this session, could join the meeting.

Reference was made to the action of the Committee on March 1 in appointing a committee (Messrs. Davis, Ransom and Sinclair) to consider section 6 of Article I of the by-laws of the Federal Open Market Committee and to submit a report and recommendation, and it was stated that the committee was not prepared to submit a report at this time.

> It was voted unanimously to request the committee to continue its study of the matter.

Reference was also made to the understanding at the last meeting of the Committee that Mr. Williams, Associate Economist, would submit a second memorandum which would be in the nature of a supplement to the memorandum submitted by him relating to the question whether the raising of reserve requirements caused the depression. It was stated that Mr. Williams was absent from this meeting because of illness and that the memorandum was not available at this time.

Mr. Harrison reviewed, for the information of Mr. McKee, who was not present at the afternoon session yesterday, the substance of Chairman Eccles' report of his discussion during the afternoon with the Secretary of the Treasury.

Chairman Eccles joined the meeting at this point and Mr. Harrison advised him of the instructions which he had given to Mr. Burgess and which had been approved by the other members of the Committee. Chairman Eccles stated that he concurred in the action of the Committee.

Mr. Harrison advised the Committee from time to time of the reports which he was receiving from the Federal Reserve Bank of New York regarding developments in the Government securities market.

The discussion of the problem before the Committee proceeded along the lines of analysis of the existing situation and of points brought out in the consideration of the problem during the preceding session.

Mr. Harrison said that he would like to have a vote upon his resolution, believing that it would be inadvisable for the Committee to decide at this time that it had no responsibility with respect to the money market or that it would witness a continued and rapid rise in the Government bond market without any action on its part in the direction of maintaining an orderly market, since government bond prices were almost at record heights with many issues selling on a no-yield basis, and present and prospective amounts of excess reserves were tending to force the market still higher, thus making it more vulnerable for attack in the future. In the event of a reaction later, he said, the Committee, no doubt, would decide to intervene not only because it had been its policy to exert its influence toward maintaining an orderly market on the decline, but also because it might feel some measure of responsibility for the condition of its member banks. He added that he felt that, in all the circumstances, the executive committee should at least have authority to permit some flexibility in the account if that should seem desirable as a factor in restraining a disorderly rise in the market. In his opinion, some reasonable reduction in the account at such a time could not properly be interpreted as a reversal of the policy of the Government with respect to excess reserves and probably would serve to make the market less vulnerable in the future.

Mr. Davis said that he would be opposed to any statement by way of preamble or otherwise that would indicate that the Committee under present conditions had any responsibility for the movement of the bond market or that would imply a criticism of actions which had been taken.

Chairman Eccles said that he could not vote for any resolution that implied a responsibility for maintaining an orderly market, which he felt could not be met under the conditions with which the Committee was confronted but that he would like to see the executive committee instructed to replace the maturing bills in the portfolio with bills to the extent that they could be purchased without paying a premium over a no-yield basis, letting that resolution stand from week to week pending another meeting of the full Committee to consider a change of policy.

During the course of the discussion Mr. McKee moved as a substitute for Mr. Harrison's motion that the executive committee be instructed to direct the replacement of the next maturing Treasury bills in the system open market account with Treasury bills or notes having maturities not to exceed two years provided that such securities could be purchased without paying a premium above a no-yield basis.

Mr. McKee's motion was duly seconded.

Mr. McKee stated that his motion was made with the idea that another meeting of the Committee should be held next week in order that the situation might be reviewed again.

At the conclusion of the discussion Mr. McKee's motion was put by the chair and carried unanimously.

Upon motion duly made and seconded, it was voted unanimously that another meeting of the Committee should be called to convene in Washington on Friday, April 29, 1938, at 10:30 a.m.

Upon motion duly made and seconded, and by unanimous vote, the Committee instructed the executive committee, until otherwise instructed by the Committee and subject to the limitations contained in the motion previously adopted on this date with respect to the next maturing Treasury bills in the account, to direct the replacement of maturing securities in the system open market account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided, that the amount of securities maturing within two years be maintained at not less than $1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over $850,000,000 nor less than $500,000,000.

Upon motion duly made and seconded, and by unanimous vote, the Committee authorized the executive committee to permit such fluctuations within reasonable limits in the amount of holdings of Government securities in the system open market account between weekly statement dates as may be desirable for the practical administration of the account in making shifts between and replacements of securities pursuant to the general authority granted by the Federal Open Market Committee.

In taking these actions it was understood that the resolution adopted at the last meeting relating to an increase or decrease in the system account would be treated as being no longer in effect.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.