

A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, May 31, 1938, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Szymczak
Mr. Davis
Mr. Sinclair

Messrs. McKee, Ransom and Draper,
Members of the Federal Open Market
Committee

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary of
the Federal Open Market Committee
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Burgess, Manager of the System Open
Market Account
Mr. Piser, Senior Economist in the
Division of Research and Statistics
of the Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee of the Federal Open Market Committee held on April 19, April 22 and April 29, 1938, were approved.

Mr. Burgess outlined briefly the transactions which had taken place in the system open market account since the last meeting of the executive committee and reported that it had been possible up to the present time to replace all maturing bills with other bills on a better than no-yield basis, but that the replacement of bills was becoming increasingly difficult, and that it appeared that if the present program of the Treasury of issuing only \$50,000,000 of bills each week is to be

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continued it will not be possible for the System to replace maturities with other bills without paying premiums over a no-yield basis. He pointed out that the action of the System in replacing maturing bills with other bills had forced other investors to go into the note market which had contributed to reducing the yields on notes to a point where notes up to nearly two years were on a minus-yield basis, and stated that if replacements were made by purchases of notes, the prices of all issues of notes would be forced still higher. In connection with his report, Mr. Burgess submitted a memorandum prepared at the Federal Reserve Bank of New York under date of May 28, 1938, on the subject of Treasury financing and during the discussion of the memorandum it was pointed out that, if the program of issuing only \$50,000,000 of bills each week were continued, the System's maturities of bills in the next three months would exceed the amount of bills issued during that period.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the system open market account for the period from April 19 to May 30, 1938, inclusive, were approved, ratified and confirmed.

After a discussion of the instructions which had been given to the Federal Reserve Bank of New York to effect transactions in the system open market account renewal of the existing authority was agreed upon.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York until otherwise directed by the executive committee,

(1) To replace maturing securities in the the system open market account by purchases of like amounts of Treasury bills or Treasury notes

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maturing within two years, provided such purchases can be made without paying a premium above a no-yield basis;

(2) To make such other shifts of securities in the account (which may be accomplished when desirable through replacement of maturing securities) as may be necessary in the practical administration of the account, up to an aggregate of \$200,000,000 of purchases and a like amount of sales or redemptions, provided that the total amount of bonds held in the account be not reduced;

(3) To increase or decrease temporarily the amount of securities in the account between weekly statement dates by not more than \$50,000,000 when necessary in making replacements or shifts pursuant to the above provisions of this resolution, provided that the amount of securities in the account as of any weekly statement date shall not be changed from that of the preceding weekly statement date except pursuant to the other provisions of this resolution; and

(4) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other shifts or such purchases or sales (which would include authority to allow maturities to run off without replacement) for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

In anticipation of a meeting of the members of the executive committee with the Secretary of the Treasury this afternoon, there was a discussion of the subject of Treasury financing. During the discussion reference was made to the preliminary draft of memorandum prepared by the Board's Division of Research and Statistics under date of May 26, 1938, on the relation of Treasury financing to Federal reserve policy, copies of which had been sent to the members of the executive committee prior to this meeting. An inquiry was made whether it was contemplated that the memorandum or any revision thereof would be pre-

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sented to the Secretary of the Treasury and in that connection a question was raised whether the meetings in which members of the executive committee participate from time to time with the Secretary of the Treasury at his request for the purpose of discussing Treasury financing should be regarded as meetings of the executive committee as such or simply as conferences in which the members participate individually. It was stated that the members of the executive committee had always conferred as individuals with the Secretary of the Treasury at his request, and not formally as a committee, and that, since the Federal Open Market Committee was fully aware of this practice, it did not appear that there was any objection thereto. Some of the members of the committee indicated that they saw no objection to the members of the executive committee agreeing on a statement for presentation to the Treasury if they felt that such a course would be desirable, but the opinion was expressed that further consideration should be given to the matter before taking such action.

At the request of the executive committee, Mr. Burgess discussed (1) the difficulties in replacing maturing securities in the system open market account since the Treasury adopted the policy of issuing only \$50,000,000 of bills each week, (2) the desirability of the Treasury undertaking a financing operation in June and September which would extend beyond a mere refunding of the notes maturing on those dates, and (3) the kinds and maturities of securities which might be offered in connection with the June 15 financing. All of these matters were considered and it was agreed that if the present Treasury policy

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of retiring a portion of the maturing bills is to be continued it was probable that the system would be unable to replace maturities in the system account with other bills or notes without paying a premium above a no-yield basis.


At 1:00 p.m. the meeting recessed and reconvened at 2:25 p.m. with the same attendance as at the morning session except that Mr. Burgess was not present, as he had been called to the Treasury for a conference.

There was a discussion of the desirability of the Treasury issuing bonds with maturities of ten years or longer and of offering five-year notes in conjunction with a bond issue. It was agreed that, aside from these questions, the members of the committee should take the position at the meeting with the Secretary of the Treasury that it was desirable that the Treasury begin immediately to issue sufficient amounts of bills to replace all bills maturing between now and August 31, 1938, with the exception of the tax date bills maturing during the middle of June.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.