

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 Tuesday, August 2, 1938, at 10:40 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors of the Federal Reserve System

Chairman Eccles stated, in view of the absence in Europe of Mr. Goldenweiser, Economist for the Federal Open Market Committee, that, if agreeable to the other members of the Committee, Mr. Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors, would be present at the meeting and at the proper time make a statement with respect to business and credit conditions. There being no objection, Mr. Thomas was requested to attend the meeting.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on April 21-22 and April 29, 1938, were approved.

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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 April 19, 22 and 29, and May 31, 1938, were approved, ratified, and confirmed.

It was stated that on July 1, 1938, all of the members of the Federal Open Market Committee, with the exception of Mr. Davis who was away, had agreed to waive, until otherwise directed by the Committee, the requirement contained in the first resolution adopted at the meeting of the Committee on April 29, 1938, that Treasury bills or Treasury notes purchased in replacement of maturing Treasury bills have maturities within two years. Mr. Harrison reviewed the conditions which existed when this action was taken pointing out that the New York bank had experienced considerable difficulty in replacing maturing bills in view of this restriction and that it had appeared that further replacements without paying a premium for bills or notes within the two-year limitation would be extremely difficult if not impossible. Mr. Harrison added, however, that while the New York bank had experienced some difficulty in replacing subsequent maturities it had not gone beyond the two-year limitation.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the Committee in waiving the two-year limitation was approved, ratified, and confirmed.

Prior to this meeting there had been sent by the Federal Reserve Bank of New York to each member of the Committee a copy of a report prepared

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at the bank covering open market operations in the system open market account during the period from April 27 through July 27, 1938, and at this meeting Mr. Harrison described the transactions which had taken place in the account during the period from July 27 to the close of business on August 1, 1938. In discussing the report Mr. Harrison reviewed the difficulties which had been experienced by the bank in effecting exceptionally large Treasury bill replacements during the period and expressed the opinion that the problem of replacement would continue to be difficult notwithstanding the fact that the Treasury contemplates issuing \$50,000,000 of new bills each week during August. He stated that the difficulties had been increased to some extent by the practice on the part of some banks with large excess reserves of investing idle funds in bills regardless of the small return and of suggesting to depositors with large idle balances that they invest such balances in bills, thereby giving the depositors a small return which they would not otherwise receive and reducing the deposit base for insurance assessment by the Federal Deposit Insurance Corporation. In connection with the discussion of the problem of replacing maturing securities, there was also a discussion of Treasury financing in relation to the operation of the system open market account.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the system open market account for the period from April 28 to August 1, 1938, inclusive, were approved, ratified, and confirmed.

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At the request of the Committee, Mr. Thomas discussed business and credit developments as outlined in a memorandum prepared in the Board's Division of Research and Statistics under date of August 1, 1938, copies of which were handed to the members of the Committee during the meeting. Mr. Thomas' remarks were followed by a statement by Mr. Williams. Copies of the memorandum prepared by the Division of Research and Statistics and a summary of Mr. Williams' statement have been placed in the files of the Federal Open Market Committee.

At 1:15 p.m. the meeting recessed and reconvened at 2:35 p.m. with the same attendance as at the morning session.

There ensued a discussion of the Committee's policy and various suggestions were considered. Mr. McKee suggested that consideration be given to the desirability, when it becomes difficult to replace maturing securities in any one week, of allowing maturities to run off with the understanding that they should be replaced through the purchase of a substantially equal amount of securities during the succeeding week thus inaugurating a policy of permitting occasional fluctuations in the size of the system portfolio.

Mr. Harrison referred to the view which he had expressed previously that maturities might be allowed to run off to the extent that it is found impracticable to replace them through the purchase of Treasury bills or notes within the two-year limitation without paying a premium above a no-yield basis, as he felt that such action should not be interpreted as

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being in conflict with the general policy of maintaining a large amount of excess reserves. He added that if such action were not taken at this time he felt that an open mind on the question should be maintained.

Chairman Eccles stated that it was his opinion that the present policy of maintaining the system open market account should be continued at least until more information is available during the next few months with respect to the Treasury financing program and other factors affecting the short term market.

There was a discussion also of suggestions as to substituting for the present two-year limitation provisions which would permit the replacement of maturing securities with bills or notes of any maturity or, if this were not considered desirable, with any Government securities having maturities up to five years.

Another suggestion considered was that the Committee might place no limitation on the type or maturity of Government securities purchased in replacement of maturing securities provided that the amount of securities in the account maturing within two years be maintained at not less than a minimum figure and that the amount of bonds in the account be maintained at not less nor more than stated amounts.

During the consideration of these suggestions the opinion was expressed that the proportion of the short-term Treasury debt to the total Treasury debt outstanding was relatively small and that it would be possible for the Treasury substantially to increase the amount of bills

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outstanding, which would largely, if not entirely, remove the difficulty of the system in making replacements and that, in any event, the problem of the administration of the system account would be affected greatly by the financing program determined by the Treasury during the next few months.

At the conclusion of these discussions it was agreed by a majority of the members of the Committee that the policy of maintaining the existing system portfolio should be continued for the present provided and to the extent that maturing securities could be replaced by the purchase of Treasury bills or notes of any maturity without paying a premium over a no-yield basis.

Upon motion duly made and seconded, and by unanimous vote, the following resolutions were adopted:

That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for the replacement of maturing securities in the system open market account with other Government securities and for such shifts in maturities as may be necessary in the proper administration of the account, provided (1) that maturing Treasury bills shall be replaced only with Treasury bills or notes to the extent that they can be purchased without paying a premium over a no-yield basis; (2) that, subject to the foregoing limitation, the amount of securities in the account maturing within two years be maintained at not less than \$1,000,000,000; and (3) that the amount of bonds in the account having maturities in excess of five years be maintained at not less than \$500,000,000 nor more than \$850,000,000.

That, in addition to such authority as may be contained in other resolutions of the Federal Open Market Committee and until otherwise directed by the Committee, the executive committee be authorized, upon written, telephonic or telegraphic approval of a majority of the members of the Federal Open Market Committee, to arrange for the purchase or sale (which would include authority

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to allow maturities to run off without replacement) of Government securities in the open market from time to time for the system open market account to such extent as the executive committee shall find to be necessary for the purpose of exercising an influence toward maintaining orderly market conditions, provided (1) that the total amount of securities in the account be not increased or decreased by more than \$125,000,000, and (2) that the amount of bonds in the account having maturities over five years be maintained at not less than \$500,000,000 nor more than \$850,000,000.


Mr. Harrison moved that the request made of Mr. Williams at the meeting on March 1, 1938, that he prepare a supplement to the memorandum submitted by him, relating to the question whether the raising of reserve requirements caused the depression, be withdrawn.

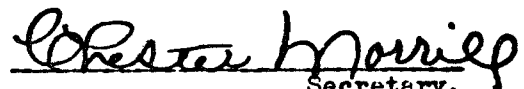
Carried unanimously.

Mr. Davis stated that the committee (Messrs. Davis, Ransom and Sinclair) appointed at the meeting on March 1, 1938, to consider Section 6 of Article I of the by-laws of the Federal Open Market Committee and to submit a report and recommendation thereon was not yet prepared to submit a report but that it would be made before the next meeting of the Committee.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.