

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, March 6, 1939, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Harrison, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Ransom  
Mr. Davis  
Mr. Draper  
Mr. Fleming  
Mr. Leach  
Mr. Martin  
Mr. Hamilton

Mr. Carpenter, Assistant Secretary  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Economist  
Mr. Williams, Associate Economist  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Sproul, Manager of the System Open  
Market Account  
Mr. Thurston, Special Assistant to the  
Chairman of the Board of Governors

The Assistant Secretary reported that records of the elections for the period of one year commencing March 1, 1939, 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 had executed the required oath of office, and that it was the opinion of the Committee's counsel on the basis of these documents that the following members and alternate members were legally qualified to serve in those capacities:

George L. Harrison, President of the Federal Reserve Bank of New York, with Roy A. Young, President

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of the Federal Reserve Bank of Boston, as alternate member;

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

Hugh Leach, President of the Federal Reserve Bank of Richmond, with Oscar Newton, President of the Federal Reserve Bank of Atlanta, as alternate member (Mr. Newton died on February 13, 1939);

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

George H. Hamilton, President of the Federal Reserve Bank of Kansas City, with William A. Day, President of the Federal Reserve Bank of San Francisco, 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, 1940:

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. Dreibalbis, 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, 1940.

Mr. Harrison stated that it was his intention to recommend to the board of directors of the Federal Reserve Bank of New York the selection of Allan Sproul as Manager of the System Open Market Account.

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Upon motion duly made and seconded, and by unanimous vote, the Committee approved the selection of Mr. Sproul 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, 1940:

Members

John K. McKee  
Ernest G. Draper  
George L. Harrison  
Hugh Leach

Alternate Members

Ronald Ransom (to serve as alternate only in the absence or disability of the Chairman)  
M. S. Szymczak  
Chester C. Davis  
(to serve in the order named as alternates for Messrs. McKee and Draper and also for Chairman Eccles in the absence of both the Chairman and Mr. Ransom)  
M. J. Fleming  
Wm. McC. Martin  
(to serve in the order named as alternates for Messrs. Harrison and Leach)

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on December 30, 1938, were approved.

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

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committee of the Federal Open Market Committee as set forth in the minutes of the meeting of the executive committee on December 30, 1938, were approved, ratified, and confirmed.

Mr. McKee raised the question whether the Federal Open Market Committee was under a responsibility of any kind with respect to periodic or other audits of the System open market account.

Upon motion duly made and seconded, and by unanimous vote, Messrs. Draper, Leach and Martin were appointed a special committee to examine this question for the purpose of determining whether there is any responsibility on the part of the Committee to audit, or otherwise to verify the transactions in, the System account, and to submit a report and recommendation as to what action, if any, should be taken by the Committee.

Mr. Sproul distributed copies of a report prepared at the Federal Reserve Bank of New York of operations in the System open market account since the last meeting of the Federal Open Market Committee on December 30, 1938, and commented briefly on the transactions covered by the report.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period from December 30, 1938, to March 4, 1939, inclusive, were approved, ratified and confirmed.

Mr. McKee presented for discussion the question whether the Federal Reserve banks should treat profits from sales of securities held in the System open market account as additions to current earnings for the year as is being done at the present time or whether

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they should be used to reduce the book value of the account or to establish reserves for depreciation in the account. Mr. Sproul stated that that question had been considered on various occasions in the past and it had been concluded that no substantial difference in the position of a Federal Reserve bank would result from either procedure. In this connection it was pointed out that the rate of dividend that may be paid by the Federal Reserve banks to stockholding member banks was fixed by law, that the ability of the Federal Reserve banks to meet a substantial depreciation in the System account would not be any greater if profits derived from sales of securities in the account were placed in a special reserve or added to the banks' surplus accounts, and that the Federal Reserve banks differed from commercial banks in that the latter were under no legal limitation as to the amount of dividends that might be paid and if reserves for depreciation were not established and profits were added to surplus there would be a greater temptation on the part of commercial banks to pay larger dividends.

At this point Messrs. Young, Sinclair, Parker, Schaller, Peyton and Day, Presidents of the Federal Reserve Banks of Boston, Philadelphia, Atlanta, Chicago, Minneapolis and San Francisco; Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, Mr. Kimball, Assistant Vice President of the Federal Reserve Bank of New York, and Mr. Bethea, Assistant Secretary of the Board of Governors of the Federal Reserve System, joined the meeting for the purpose of hearing the

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comments of Messrs. Goldenweiser and Williams with respect to the current business and credit situation.

Mr. Goldenweiser stated that he had prepared under date of March 2, 1939, a memorandum on recent business and credit developments, copies of which would be distributed. He then commented on the important points covered by the memorandum following which copies of the memorandum were handed to those present.

Mr. Williams made a statement in which he commented on various factors in the existing situation and the prospects for the continuation of the current recovery trend. A summary of Mr. Williams' statement has been placed in the files of the Federal Open Market Committee.

These statements were followed by a discussion of questions which were asked of Messrs. Goldenweiser and Williams, particularly with respect to the relation of prices to business conditions and the present and future prospects of the construction and housing industry.

The meeting recessed at 1:00 p.m. and reconvened at 2:15 p.m. with the same attendance as at the opening of the morning session except that Messrs. Thurston and Dreibelbis were not present.

Mr. Harrison moved that the following resolutions, which are in the same form as resolutions adopted at the meeting of the Federal Open Market Committee at its meeting on December 30, 1938, be adopted for substantially the same reasons given at the time of their adoption in December.

That the executive committee be directed until otherwise directed by the Federal Open Market Committee, (1) to arrange for the replacement of maturing Treasury bills in

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the System open market account with other Treasury bills or Treasury notes, or, from time to time, to allow such bills to mature without replacement or pending subsequent replacement (a) when market conditions are such as to make it impossible to procure other bills or notes without paying a premium over a no-yield basis, or (b) when such notes are not obtainable without undue disturbance to the market; (2) to arrange for the replacement of maturing Treasury notes and bonds in the System open market account with other Government securities; and (3) to arrange for such shifts in maturities in the System open market account as may be necessary in the proper administration of the account; provided, (a) that the amount of securities in the account maturing within two years be maintained at not less than \$1,000,000,000; (b) 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 \$900,000,000; and (c) that, if Treasury bills in the account are allowed to mature without replacement, the total amount of securities in the account be not decreased by more than \$200,000,000.

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 to allow maturities to run off without replacement) of Government securities in the open market from time to time for 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 by more than \$200,000,000 nor decreased by more than \$200,000,000 including such decreases as may result from allowing Treasury bills in the account to mature without replacement, 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 \$900,000,000.

Mr. Harrison's motion was duly seconded.

Reference was made to the circumstances under which action was

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taken by the Federal Open Market Committee at its meeting on December 30, 1938, and question was raised whether Messrs. Fleming, Martin and Hamilton, who had not attended that meeting, had read the minutes of the meeting. The Assistant Secretary stated that under the procedure in effect the three members mentioned had not been furnished with copies of the minutes although a copy had been sent to Mr. Leach who had attended the meeting as an alternate member. Mr. Fleming stated he had received the minutes of the meetings of the Committee for the past year from Mr. Sinclair but had not had an opportunity to read them.

In response to a suggestion by Mr. Davis it was understood that Chairman Eccles would appoint a committee of three members of the Federal Open Market Committee to consider the question whether copies of the minutes of the Federal Open Market Committee and its executive committee should be sent to the alternate members of the Committee, and to make a recommendation to the Committee with respect thereto and with regard to the procedure to be followed in furnishing minutes of the meetings of the Federal Open Market Committee and its executive committee to new regular members of the Committee elected to take office as of March 1 each year.

Mr. McKee suggested that for the purpose of acquainting the new members of the Federal Open Market Committee with the basis for the action at the meeting on December 30, 1938, the minutes of that meeting be read.

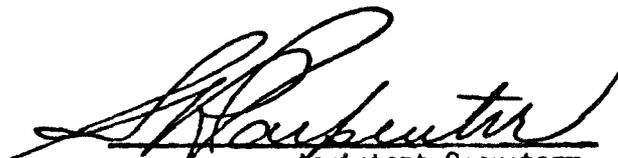
Mr. Harrison stated that if the members were to have a more complete background of the circumstances which led up to the action on December 30 it would be necessary that they read all of the minutes

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of the full Committee beginning with the meeting of April 21-22, 1938. It was agreed that Messrs. Leach, Martin and Hamilton would be furnished with copies of the minutes referred to by Mr. Harrison, that they and Mr. Fleming would read the minutes during the evening, and that the Committee would reconvene tomorrow morning for further consideration of the open market policy to be adopted by the Committee.

Thereupon the meeting recessed with the understanding that it would reconvene tomorrow, Tuesday, March 7, 1939, at 10:00 a.m.

  
Assistant Secretary.

Approved:

  
Chairman.