

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 Tuesday, March 7, 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

At the request of the Committee, Mr. Goldenweiser referred to various factors that might be taken into consideration in determining whether a change should be made in the resolutions adopted by the Federal Open Market Committee at its meeting on December 30, 1938. He repeated that, in his opinion, the System should follow the policy of husbanding all of the means of control that it has for the reason that considerable difficulty might be experienced in the future in exercising an effective influence in the field of credit control. He said that the psychological effect of a departure from a fixed portfolio was an important one, that he would regret to see that effect dissipated unless there was a compelling reason for such action, and

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that a decrease in the portfolio should be used as a signal for a definite change in System policy. He added that, in his opinion, there was no evidence of any occasion for reversing the policy of monetary ease which had been followed by the System and that he felt it would strengthen the position of the System in the future if the portfolio was maintained at this time. He made the further observation that with excess reserves of member banks as large as they are at present there was little or no economic significance in a reduction of \$100,000,000 or \$200,000,000 in excess reserves.

Mr. Goldenweiser's statement was followed by a discussion of the question whether existing circumstances were such as to call for a change in the resolutions adopted at the December meeting.

During the discussion Mr. McKee raised the question whether it was the intention of the Committee in December, when authorizing the executive committee to allow maturities to run off without replacement under certain circumstances, that such maturities would be replaced in the System account as soon as the market conditions justified. A majority of the members of the Committee agreed that this was the understanding as indicated both by the resolution itself, which stated that maturing Treasury bills could be allowed to mature without replacement or pending subsequent replacement, and by the last paragraph of the statement released to the press at that time to the effect that because no change in System policy was contemplated at the time maturing bills would be replaced to the extent that market conditions warranted.

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The discussion also related to the circumstances surrounding the action of the Board of Governors in April 1938 in reducing reserve requirements of member banks and the relation of that action and the Administration's policy of monetary ease to the subsequent actions of the Federal Open Market Committee.

At the conclusion of the discussion the motion made by Mr. Harrison at the meeting of the Committee yesterday afternoon that the Committee adopt resolutions containing instructions to the executive committee in the same form as resolutions adopted at the meeting on December 30, 1938, was put by the chair and carried, Messrs. Harrison, Szymczak, McKee, Davis, Fleming, Leach, Martin, and Hamilton voting "aye", and Messrs. Eccles, Ransom, and Draper voting "no".

The reasons for the adoption of these resolutions were substantially the same as the reasons for similar action taken at the meeting of the Federal Open Market Committee on December 30, 1938, which reasons were set forth, in part, in the minutes of the meeting of December 30, 1938, in the public statement released by the Committee on that date, and in the record of discussions included in the minutes of previous meetings of the Committee.

In connection with his vote Mr. Draper made the following statement:

"I wish to explain my vote on this resolution. In my opinion many persons interested in financial affairs, and many financial officers of business concerns who follow the Federal Reserve weekly statements, fix their attention particularly upon the size of the System's portfolio. To them a change in its size means a definite change in policy. And this is true, I believe, regardless of explanatory statements to the contrary by officials of the System or anyone else.

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"Therefore, until we are ready to make a real change in policy, I believe it most important to maintain the portfolio at its present size. For this reason, as well as for other reasons given by Chairman Eccles and Mr. Ransom, at the meeting on December 30, 1938, I wish to vote No on the Resolution."

Thereupon the meeting adjourned.

  
Assistant Secretary.

Approved:

  
Chairman.