

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 20, 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

Mr. Davis stated that the special committee (Mr. Davis, Chairman, and Messrs. Ransom and Harrison) appointed by the Chairman in accordance with the suggestion made at the meeting of the Federal Open Market Committee on March 6, 1939, had considered the question of the distribution to be made of the minutes of the meetings of the Federal Open Market Committee and the executive committee thereof and recommended that the Secretary of the Federal Open Market Committee be directed to send to the President of each Federal Reserve bank copies of the minutes of all meetings of the Federal Open Market Committee and its executive committee under the same conditions as to the confidential nature of the minutes as apply to copies sent

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to the regular members of the Committee.

Upon motion duly made and seconded, and by unanimous vote, the recommendation of the special committee was approved with the understanding that the minutes would first be sent to the regular members of the Federal Open Market Committee for review before being sent to the other Presidents.

Mr. Sproul distributed among the members of the Federal Open Market Committee 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 March 6, 1939. He then discussed the report briefly and stated that as prices in the Government securities market had eased somewhat it appeared that it would be possible to replace the \$72,710,000 of bills maturing this week without undue disturbance to the market.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the account for the period from March 5 to March 19, 1939, inclusive, were approved, ratified and confirmed.

During the discussion of Mr. Sproul's report Mr. Piser, Senior Economist in the Board's Division of Research and Statistics, joined the meeting.

Messrs. Goldenweiser and Williams were asked to comment upon the existing business and credit situation and Mr. Goldenweiser stated that they had nothing to add to the statements which were made by them at the meeting of the Federal Open Market Committee on March 6, 1939. Upon inquiry Mr. Goldenweiser said that he did not

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anticipate any substantial decline in the index of business activity because of unsettled conditions abroad but rather that the situation, resulting in greater demands for munitions and war supplies, would tend to greater business activity in this country. He added that he did not feel that the European situation would have an immediately bad effect on business conditions in the United States even though war were actually declared.

Chairman Eccles then reviewed briefly the circumstances surrounding the calling of the meeting of the executive committee on March 13, 1939, the discussions with the Secretary of the Treasury on that date, and the reasons for calling this meeting of the full Committee to determine, among other things, the answer to be made to the question asked by the Secretary of the Treasury whether the System would be willing to participate with the Treasury in the sale of bonds for the purpose of checking a too rapid rise in the Government security market. Mr. Sproul stated in this connection that because of the subsequent easing of Government security prices the Treasury had cancelled a second order placed with the Federal Reserve Bank of New York for the sale of \$10,000,000 of Government bonds for the account of trust funds administered by the Treasury.

During a discussion of the question presented by the Secretary of the Treasury, Chairman Eccles stated that he had had prepared a draft of statement which might be made to the Secretary in response to his suggestion as well as in response to his statement that any

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action with respect to the problem of excess reserves of member banks should be initiated by the Federal Reserve System. The draft of statement was read and a copy has been placed in the files of the Federal Open Market Committee.

At the conclusion of the discussion, Mr. Harrison moved that the Chairman, either by telephone or personally, advise the Secretary of the Treasury in reply to his question that (1) the Federal Open Market Committee does not regard the present as a proper time for a reduction in the System open market account by the sale of bonds and that, in view of the change in circumstances that has occurred since his question was presented, the Committee assumes that the Secretary is of the same opinion as indicated by the cancellation of an outstanding order by the Treasury to the Federal Reserve Bank of New York to sell \$10,000,000 of bonds for the account of trusts administered by the Treasury and (2) that the Committee still feels that the continuing and fundamental problem involved is one of excess reserves and that inasmuch as the Secretary of the Treasury expressed the opinion that the primary responsibility for initiating action with respect to excess reserves rests upon the Federal Reserve System, the Federal Open Market Committee would suggest that representatives of the System consult with the Treasury with a view to determining if a long range attack can be made on the problem.

Mr. Harrison's motion, after being duly seconded, was put by the chair and carried unanimously.

Chairman Eccles inquired what the answer of the Committee would be if the Secretary asked whether the Committee would be willing to cooperate in the sale of bonds in the event of a further sharp rise in Government security prices. It was the consensus of the members

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that the Committee could not commit itself in advance on this point but would be glad to consider the matter in the light of all of the surrounding circumstances when the problem was again presented.

Mr. Goldenweiser raised the question whether the Board desired to renew the suggestion to the Secretary that he meet Treasury expenditures by drawing on balances with depositary banks rather than on the balances held at the Federal Reserve banks. It was felt that this question was a part of the general problem of excess reserves of member banks and that it should be considered in that connection and not as a separate question.

Mr. Harrison then moved that the Committee adopt the following resolutions:

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 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.

During the ensuing discussion consideration was given particularly to the question whether the System open market account should be allowed to run off to the extent that it was not possible to obtain replacement bills or notes on a better than no-yield basis.

At the conclusion of the discussion, Mr. Harrison's motion, having been duly seconded, 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".

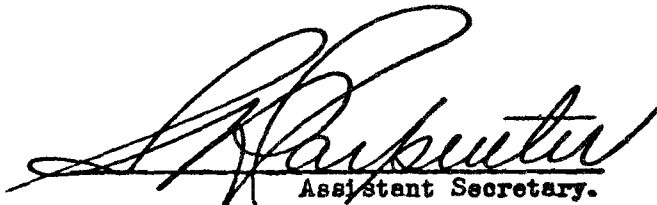
Mr. Draper stated that the special committee appointed at the meeting of the Federal Open Market Committee on March 6, 1939, to examine the question whether there is any responsibility on the part of the Committee to audit, or otherwise to verify transactions in, the System open market account, had requested an opinion of the Committee's counsel with respect to the question, that the opinion had

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been prepared, and that the matter would be considered by the committee with the view to making a report at the next meeting of the Federal Open Market Committee.

Thereupon the meeting adjourned.

  
Assistant Secretary.

Approved:

  
Chairman.