

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, May 28, 1940, at 10:25 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. Day  
Mr. Leach (alternate for Mr. Parker)

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

Messrs. Fleming, Martin, and Peyton, Alternate  
Members of the Federal Open Market Committee

Messrs. Hamilton and Gilbert, Presidents of  
the Federal Reserve Banks of Kansas City  
and Dallas, respectively.

Consideration was given to the question whether events since the last meeting of the Committee called for any change in the existing System policy.

Mr. Harrison referred to the suggestion made by him at the meeting yesterday that the executive committee be authorized to sell securities, within limits to be fixed by the full Committee, not only for the purpose of exercising an influence toward orderly conditions

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in the market but also for the purpose of disposing of securities which had been acquired in a period of market weakness whenever such sales could be made without adversely affecting the market. He said the reason for this suggestion was that as the New York Bank interpreted the existing instructions of the executive committee such sales had not been authorized. He believed it would be good policy in the administration of the System account to reduce the account when possible during a stable or rising market after a substantial amount of securities had been purchased during a decline for the purpose of exercising a stabilizing influence. In this connection he pointed out that under the authority granted to the New York Bank by the executive committee the Bank could make such shifts in the System account as may be necessary for the practical administration of the account or for the purpose of exercising an influence toward orderly market conditions and he suggested that there be added the authority to make sales of securities when desirable or advisable in the practical administration of the account, it being understood that the New York Bank would consult with the members of the executive committee as had been done in the recent periods. While he did not anticipate that an opportunity for such action would present itself in the near future he felt it would be well to permit such an operation should an occasion therefor arise.

In the discussion which followed members of the Committee present concurred in the belief that the existing instructions to

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the executive committee were broad enough to permit sales under the conditions indicated by Mr. Harrison when in the judgment of the executive committee sales were desirable or advisable. Mr. Harrison said that if it were understood that the existing instructions were sufficiently broad to authorize the New York Bank to sell securities, which had been purchased in a period of market weakness for the purpose of exercising a stabilizing influence, whenever there was a strong buying market and there were not sufficient offerings, he felt the resolution of the full Committee would be satisfactory in its present form. All of the members of the Federal Open Market Committee present indicated agreement that the resolution should be so interpreted.

Thereupon, Mr. Harrison moved that the following resolution, which is in the same form as the resolution adopted at the meeting of the Federal Open Market Committee on March 20, 1940, be adopted.

"That the executive committee be directed until otherwise directed by the Federal Open Market Committee to arrange for such transactions for the System Open Market Account (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement) as in its judgment from time to time may be necessary for the purpose of exercising an influence toward maintaining orderly market conditions; provided that the aggregate amount of securities held in the Account at the close of this date shall not be increased nor decreased by more than \$500,000,000."

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

Mr. Harrison referred to the question recently submitted by

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the Board of Governors to the Federal Advisory Council and to the boards of directors of the Federal Reserve Banks on the subject of easy money and stated that at the meeting of the Presidents of the Federal Reserve Banks yesterday the statement prepared by the Federal Advisory Council was read for the confidential information of all of the Presidents, and that since any comments in that or other statements of the Council relating to open market policy would apply to the Federal Open Market Committee to the extent that it had played a part in the easy money policy of the System, he would like to get the reaction of the Board to the replies that had been made.

At Chairman Eccles' suggestion it was agreed that a meeting of the Board of Governors with the Presidents of the Federal Reserve Banks should be held following this meeting for the purpose of discussing that matter as well as the question raised by Chairman Eccles at the meeting of the Federal Open Market Committee yesterday afternoon with respect to the place of the Federal Reserve System in the banking and monetary problems of the country.

Mr. Harrison said that one of the questions assigned to the committee which was appointed at the last meeting of the Federal Open Market Committee (Messrs. Ransom, Harrison and Davis) and which was discharged at the meeting yesterday, was the relation of the dealers to the Government securities market and that, as he had stated at a previous meeting of the Federal Open Market Committee, the Federal Reserve Bank of New York had made a study of that problem and had prepared a memorandum regarding it, copies of which had been handed to

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Messrs. Ransom and Davis. Copies of the memorandum were distributed during this meeting to the other members of the Committee and to the Presidents of the Federal Reserve Banks who were not members of the Committee, except Messrs. Young and Parker who were absent, and it was understood that Mr. Rouse would send copies to them.

Mr. Ransom referred to the banking studies which were prepared by the staff of the Board of Governors and sent to the Presidents of all Federal Reserve Banks for their comments. He stated that the studies were in the process of being edited and it would be helpful if the Board could have any further suggestions that the Presidents may have to make as promptly as possible.

Mr. Harrison stated that at the meeting of the Presidents yesterday the legislative committee appointed by the Presidents' Conference handed to the Presidents several memoranda which had been prepared by the committee on questions which it had had under consideration prior to receipt by the Federal Reserve Banks of the questionnaire prepared by the Senate Committee on Banking and Currency in connection with the Wagner Resolution and that copies had not been submitted to the Board for the reason that it was felt that before that was done the memoranda should be reviewed by all of the Presidents.

In a discussion of the Wagner questionnaire, Mr. Ransom stated that no one on the Board or its staff had anything to do with the preparation of the questionnaire and that the best information available

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to the Board was that it was prepared by parties outside the service of the Government.

The suggestion was made by Chairman Eccles that in view of the developments which have taken place since the questionnaire was prepared it was possible that the studies contemplated by the Wagner Resolution would be postponed indefinitely and that it was possible that an emergency might arise which would make it necessary for Congress to pass banking legislation without prolonged study of the subject.

Thereupon the meeting adjourned.

Robert Morrie  
Secretary.

Approved:

W. E. Eccles  
Chairman.