

M.B. leads  
copy

TO: MISS ADAMS

November 29, 1955

FROM: M. BURNETT

SUBJECT: OPEN MARKET COMMITTEE

This is a record of my findings on the Open Market Committee during a search for names of the members prior to 1936, after which time we have them listed in the Time File. Individual names of the membership are not given in the annual reports of the Federal Reserve Board prior to 1936. Neither are they in the Federal Reserve Section of Polk's Bankers Encyclopedia although they may be found there after 1935. I searched the annual reports from 1922 to 1935 since the year 1922 is mentioned in several places as the actual beginning of open market operations. During this period the Committee was composed of either five Governors of the Federal Reserve Banks or all twelve Governors. The latter could easily be listed but I haven't been able to locate the names of the select five. Correspondence Files said they do not have them listed separately and would have to make an extensive search through their files on the Committee. I said not to undertake this until I had consulted you. Would you like to have me ask the Board Library to run it down, if you do not want to approach the Board directly?

In the Federal Reserve Loose-Leaf Service, vol. 2, under Federal Reserve Act, Sec. 12 A, #4275 I found the following history.

Development of methods of control of open market operations, culminating in the "Open Market Committee" created by Section 12 A of the Federal Reserve Act as revised March 1, 1936, is reflected by a chronological listing of the various committees and bodies created for such purpose as follows:

- 1922-1923  
(May 1922  
to  
Apr. 1, 1923)
1. "Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities".  
This committee was composed of five governors of Federal Reserve Banks and functioned from May 1922 to ~~April 7, 1923~~. April 1, 1923\* (See memo. 12/9/55)
- 1923-1930  
(Apr. 1, 1923  
to  
Mar. 25, 1930)
2. "Open Market Investment Committee".  
This committee was created on ~~April 7, 1923~~ <sup>\*April 1, 1923</sup> as a result of

2. "Open Market Investment Committee" (Cont.)

resolution passed by the Federal Reserve Board on March 22, 1923 from which time open-market operations were not engaged in by Federal Reserve Banks except with the approval of the Federal Reserve Board. It was composed of five governors of Federal Reserve Banks and functioned until <sup>25</sup>March ~~31~~, 1930. (\*See memo. 12/9/55)

1930-1933 3. "Open Market Policy Conference"  
(Mar. 25, 1930  
to  
June 16, 1933)

This committee was created as the result of conferences by representatives of the 12 Federal Reserve Banks with the Board for the purpose of recommending policies and plans regarding open-market operations. It was composed of the twelve Governors of the Federal Reserve Banks and functioned until the passage of the Banking Act of 1933.

An interesting side-light on the status of this "conference" is contained in the Board's annual report for 1932, p. 212 in Comments on the Glass bill, S115: "The first part of section 10 would establish a Federal open-market committee along the lines of the existing open market conference, which functions as a piece of administrative machinery without specific legal status."

1933-1936 4. "Federal Open Market Committee"  
(June 16, 1933  
to  
Mar. 1, 1936)

This committee was created on June 16, 1933, by the Banking Act of 1933, and was composed of the governors of the Federal Reserve Banks.

1936- date 5. "Federal Open Market Committee"  
(Mar. 1, 1936  
to date)

As provided in section 12 A of the Federal Reserve Act as now in force, creating a committee consisting of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve Banks. (with an alternate for each.)

Notes

Some comments from the annual reports of the Federal Reserve Board for 1923 and 1928 are of interest in tracing the development of open market operations and the functioning of the Committee.

Report of 1923, p.12 - 13.

"A review of the history of the open-market transactions of the Federal Reserve System shows that during the first three years of their operation the volume of open-market securities held by the Reserve Banks was larger than the volume of their discounts for member banks... The Reserve Banks entered the open market at this time partly to secure earnings from the investments from which their operating expenses could be defrayed, but largely also for the purpose of building up a broader discount market in the United States by encouraging the use of bankers' acceptances and by freely dealing in them.

"After the entry of the United States into the World War the increased demand for credit for Government financing resulted in a rapid increase in borrowing by member banks at the Reserve Banks. From that time until the end of 1921, when the liquidation following the crisis of 1920 had pretty well completed its course, the volume of paper held by the Federal Reserve Banks as discounts was much larger than the holdings of open-market investments. The volume of such investments was at times considerable during this period, but, taking the period as a whole, the holdings of open-market investments during the five years from the time of our entry into the war until the spring of 1922 constituted a relatively small proportion of the total earning assets of the Federal Reserve Banks.

"During the years 1922 and 1923 the open-market transactions of Federal Reserve Banks entered upon a new phase.... During these two years, in contrast to the earlier period, open-market transactions ... were principally in Government securities... By mid-year the volume of <sup>such</sup> (short-term Treasury) securities held by the Reserve Banks reached nearly \$600,000,000. The course of these operations,

Notes (Cont.)

entered upon independently by each of the twelve banks, made evident the need for a better coordination of the open-market operations of the several banks, and in 1922 led to the creation of a committee of officers of the Reserve Banks for the purpose of coordinating Reserve Bank dealings in Government securities, so as to prevent possible conflict between their own transactions and those which as fiscal agents of the Government they were conducting for the Treasury. Moreover, and eventually destined to be far more important, the character and scale of the open-market operations engaged in the the Federal Reserve Banks during the year 1922 and the early part of 1923 showed the need of bringing these operations more definitely into line with the general credit policy of the system."

1928

Recommendation of the Federal Advisory Council, September 28, 1928.

Topic no. 3 - Open-market committee.

Recommendation: "The Federal Advisory Council without any intention of criticizing the present arrangements but in order that all governors of the Federal Reserve Banks may participate in the discussions leading up to actions of the open-market committee suggests to the Federal Reserve Board to consider the advisability of having the membership of the open-market committee consist of all the governors of the Federal Reserve Banks with an executive committee composed of five members with full power to act."