

The meeting of the Federal Open Market Committee was recon-
vened in the offices of the Board of Governors of the Federal Reserve
System in Washington on Tuesday, March 1, 1938, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Sinclair
Mr. Newton
Mr. Schaller
Mr. Peyton

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

The Secretary reported that records of the elections for the
period of one year commencing March 1, 1938, of members and alter-
nates representing the Federal reserve banks, or certified copies
thereof, had been received by the Secretary of the Committee; that
each newly elected member and alternate had filed the required oath
of office; and that it was the opinion of the Committee's counsel on
the basis of these documents that the newly elected members and alter-
nates present were legally qualified to participate in the meeting,
as follows:

3/1/38

-2-

George L. Harrison, President of the Federal Reserve Bank of New York, with Roy A. Young, President of the Federal Reserve Bank of Boston, as alternate member;

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

Oscar Newton, President of the Federal Reserve Bank of Atlanta, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

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

John N. Peyton, President of the Federal Reserve Bank of Minneapolis, with George H. Hamilton, President of the Federal Reserve Bank of Kansas City, as alternate member.

Upon motion duly made and seconded, the following officers of the Committee were re-elected by unanimous votes to serve until the election of their successors at the first meeting after March 1, 1939:

Marriner S. Eccles, Chairman
 George L. Harrison, Vice Chairman
 E. A. Goldenweiser, Economist
 John H. Williams, Associate Economist
 Walter Wyatt, General Counsel
 J. P. Dreibelbis, 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, 1939.

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 Mr. Furgess as Manager of the System Open Market Account.

Upon motion duly made and seconded, and by unanimous vote, the Committee approved the selection of Mr. Furgess as Manager of the System

3/1/38

-3-

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, 1939:

Members

M. S. Szymczak
Chester C. Davis
George L. Harrison
John S. Sinclair

Alternate Members

John K. McKee
Ronald Ransom
(to serve in the order
named as alternates for
Messrs. Eccles, Szymczak
and Davis)

George J. Schaller
John N. Peyton
(to serve in the order
named as alternates for
Messrs. Harrison and
Sinclair)

There were then presented by Mr. Ransom certain suggested amendments to the by-laws of the Federal Open Market Committee and the regulation adopted by it with respect to open market operations of Federal reserve banks.

After discussion of the proposed changes, upon motion duly made and seconded, the following amendments were approved unanimously:

Section 1 of Article I of the by-laws of the Committee was amended to read as follows:

"Prior to the first meeting of the Committee following March 1 each year, each member of the Committee representing the Federal reserve banks

3/1/38

-4-

"shall cause a record of his election and of the election of the alternate to serve in his absence to be forwarded to the Secretary of the Committee. If any question be raised as to the election or eligibility of such member or alternate, the Committee shall determine such question before permitting such member or alternate to participate in the meetings."

The clause "and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting", was added to the last sentence of Section 5 of Article I of the by-laws so that the sentence would read as follows:

"Whenever any member of the Committee representing Federal Reserve banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram, and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting."

Section 2 of Article II of the by-laws was amended by substituting for the last sentence the following two sentences:

"At its first meeting after March 1 of each year the Committee shall elect an Assistant Secretary, to serve until the first meeting after March 1 of the next year. In the absence of the Secretary of the Committee, the Assistant Secretary shall act as Secretary pro tem."

The first paragraph of Section 7 of the regulation of the Federal Open Market Committee relating to open market operations of Federal reserve banks was amended to read as follows:

"No Federal Reserve bank shall purchase or sell Government securities, for its own account or for the account of any other Federal Reserve bank, except pursuant to authority granted by the Committee or in accordance with an open-market policy adopted by the Committee and in effect at the time."

3/1/38

-5-

Paragraphs (1) and (2) of Section 8 of the regulation of the Federal Open Market Committee relating to open market operations of Federal Reserve banks were amended to read as follows:

"(1) Each Federal Reserve Bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

"(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased and the rates of discount shall be established in accordance with the provisions of section 14(d) of the Federal Reserve Act: Provided, further, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve bank except in accordance with directions of the Committee."

Upon motion duly made and seconded, and by unanimous vote, S. R. Carpenter was elected Assistant Secretary of the Committee to serve until the election of his successor at the first meeting after March 1, 1939.

It was stated that at the meeting of the Board of Governors with the Presidents of Federal reserve banks yesterday, at which all of the members of the Federal Open Market Committee with the exception of Mr. Harrison were in attendance, Messrs. Goldenweiser and Williams, as economists for the Committee, reviewed the present business and credit situation. Copies of the memorandum prepared by Mr. Goldenweiser under date of February 26, 1938, on the subject of recent business and credit developments, which formed the basis of his statement, and a summary of Mr. Williams' statement which reviewed the

3/1/38

-6-

possible trends of business activity in the near future, have been placed in the files of the Federal Open Market Committee.

There ensued a general discussion of open market policy and of the resolutions to be adopted by the Committee authorizing the executive committee to direct open market operations pending another meeting of the full Committee. Chairman Eccles stated that he felt the present policy should be continued for the reason that the excess reserves held by member banks are not excessive under existing circumstances; that, in view of the low volume of business activity, declining prices, and business uncertainty, no useful purpose would be achieved by reducing the total amount of securities held in the System open market account; and that such action might be misinterpreted and thereby result in a further unfavorable element in the business situation. He also expressed the opinion that the present policy of reducing the amount of holdings of long-term bonds in the System account should be continued in order to exercise some restraint upon increases in prices of Government bonds and to place the System in a better position to make purchases later if they should be necessary to maintain an orderly market. Others expressed agreement with this statement of principles.

Mr. Harrison stated that, while he did not wish at this time to vote for a reduction in the total amount of securities held in the System account, he felt that careful consideration should be given from time to time to the reasons that might be advanced for such action in

3/1/38

-7-

order that the Committee might be ready to take that action whenever conditions might make it possible without undue risk. During the ensuing discussion of the circumstances under which the Committee might be justified in reducing the amount of securities held in the System open market account there was general concurrence in the opinion that such action should not be taken at this time.

There was also a discussion of ways in which a policy of reducing the System open market account might be made effective, such as through the sale of securities in the market thereby reducing excess reserves, or sales simultaneous with purchases by the Treasury to be paid for from the inactive gold account, which would not affect the excess reserve position of member banks. Reference was made to suggestions that had been made from time to time in the past that small fluctuations in the total amount of securities held in the account be permitted in order to prevent the appearance of inflexibility in the account and to prevent undue importance being attached in the market to the Committee's action when a decision is made to reduce the amount held in the account. Some of the members stated that they felt, however, that no change should be made in the portfolio until there is a change of policy as to the amount to be held, in order that the action of the Committee at that time might have as great a psychological effect as possible.

3/1/38

-8-

Upon motion duly made and seconded, and by unanimous vote, the Committee instructed the executive committee, until otherwise instructed by the Committee, to direct the replacement of maturing securities in the System open market account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

Upon motion duly made and seconded, the Committee voted unanimously to authorize the executive committee, upon written, telephonic, or telegraphic approval of a majority of the members of the Committee, and until otherwise directed by the Committee, to direct the purchase in the open market from time to time of sufficient amounts of Government securities to meet the requirements of commerce, business, and agriculture by keeping at member banks an aggregate volume of excess reserves adequate for the continuance of the System's policy of maintaining credit conditions conducive to economic recovery; and to authorize the executive committee, upon written, telephonic, or telegraphic approval of a majority of the members of the Committee, and until otherwise directed by the Committee, to direct a reduction of the holdings of such securities, to the extent that their retention is found to be unnecessary for the purposes of this resolution. It was understood, however, that the executive committee, under this resolution, was not authorized to increase or decrease by more than \$300,000,000 the amount of securities now held in the System open market account.

Reference was made to the action taken at the session of the Federal Open Market Committee yesterday in voting to recommend that

3/1/38

-9-

the Committee, at its meeting today, take action to appoint a special committee to consider Section 6 of Article I of the by-laws of the Committee in the light of the discussion at the meeting yesterday and to submit a report and recommendation at the next meeting of the Committee as to changes in the section.

Mr. Harrison moved that the Chairman be requested to appoint a special committee in accordance with the recommendation made at the meeting yesterday.

Having been duly seconded, Mr. Harrison's motion was put by the chair and carried by unanimous vote.

In accordance with the Committee's action, Chairman Eccles appointed Mr. Davis as chairman, and Messrs. Ransom and Sinclair as the other two members, of the special committee.

Thereupon the meeting adjourned.

Rester Morris
Secretary.

Approved:

W. B. Eccles
Chairman.