

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 6, 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

The Assistant Secretary reported that records of the elections for the period of one year commencing March 1, 1939, of members and alternate members of the Federal Open Market Committee representing the Federal Reserve banks had been received in the office of the Secretary of the Committee, that each newly elected member and alternate had executed the required oath of office, and that it was the opinion of the Committee's counsel on the basis of these documents that the following members and alternate members were legally qualified to serve in those capacities:

George L. Harrison, President of the Federal Reserve Bank of New York, with Roy A. Young, President

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of the Federal Reserve Bank of Boston, as alternate member;

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

Hugh Leach, President of the Federal Reserve Bank of Richmond, with Oscar Newton, President of the Federal Reserve Bank of Atlanta, as alternate member (Mr. Newton died on February 13, 1939);

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

George H. Hamilton, President of the Federal Reserve Bank of Kansas City, with William A. Day, President of the Federal Reserve Bank of San Francisco, as alternate member

Upon motion duly made and seconded, the following officers of the Federal Open Market Committee were reelected by unanimous votes to serve until the election of their successors at the first meeting of the Committee after March 1, 1940:

Marriner S. Eccles, Chairman
George L. Harrison, Vice Chairman
S. R. Carpenter, Assistant Secretary
E. A. Goldenweiser, Economist
John H. Williams, Associate Economist
Walter Wyatt, General Counsel
J. P. Dreibalbis, 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, 1940.

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 Allan Sproul as Manager of the System Open Market Account.

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Upon motion duly made and seconded, and by unanimous vote, the Committee approved the selection of Mr. Sproul as Manager of the System Open Market 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, 1940:

Members

John K. McKee
Ernest G. Draper
George L. Harrison
Hugh Leach

Alternate Members

Ronald Ransom (to serve as alternate only in the absence or disability of the Chairman)
M. S. Szymczak
Chester C. Davis
(to serve in the order named as alternates for Messrs. McKee and Draper and also for Chairman Eccles in the absence of both the Chairman and Mr. Ransom)

M. J. Fleming
Wm. McC. Martin
(to serve in the order named as alternates for Messrs. Harrison and Leach)

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on December 30, 1938, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive

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committee of the Federal Open Market Committee as set forth in the minutes of the meeting of the executive committee on December 30, 1938, were approved, ratified, and confirmed.

Mr. McKee raised the question whether the Federal Open Market Committee was under a responsibility of any kind with respect to periodic or other audits of the System open market account.

Upon motion duly made and seconded, and by unanimous vote, Messrs. Draper, Leach and Martin were appointed a special committee to examine this question for the purpose of determining whether there is any responsibility on the part of the Committee to audit, or otherwise to verify the transactions in, the System account, and to submit a report and recommendation as to what action, if any, should be taken by the Committee.

Mr. Sproul distributed copies of 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 December 30, 1938, and commented briefly on the transactions covered by the report.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period from December 30, 1938, to March 4, 1939, inclusive, were approved, ratified and confirmed.

Mr. McKee presented for discussion the question whether the Federal Reserve banks should treat profits from sales of securities held in the System open market account as additions to current earnings for the year as is being done at the present time or whether

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they should be used to reduce the book value of the account or to establish reserves for depreciation in the account. Mr. Sproul stated that that question had been considered on various occasions in the past and it had been concluded that no substantial difference in the position of a Federal Reserve bank would result from either procedure. In this connection it was pointed out that the rate of dividend that may be paid by the Federal Reserve banks to stockholding member banks was fixed by law, that the ability of the Federal Reserve banks to meet a substantial depreciation in the System account would not be any greater if profits derived from sales of securities in the account were placed in a special reserve or added to the banks' surplus accounts, and that the Federal Reserve banks differed from commercial banks in that the latter were under no legal limitation as to the amount of dividends that might be paid and if reserves for depreciation were not established and profits were added to surplus there would be a greater temptation on the part of commercial banks to pay larger dividends.

At this point Messrs. Young, Sinclair, Parker, Schaller, Peyton and Day, Presidents of the Federal Reserve Banks of Boston, Philadelphia, Atlanta, Chicago, Minneapolis and San Francisco; Mr. Gilbert, First Vice President of the Federal Reserve Bank of Dallas, Mr. Kimball, Assistant Vice President of the Federal Reserve Bank of New York, and Mr. Bethea, Assistant Secretary of the Board of Governors of the Federal Reserve System, joined the meeting for the purpose of hearing the

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comments of Messrs. Goldenweiser and Williams with respect to the current business and credit situation.

Mr. Goldenweiser stated that he had prepared under date of March 2, 1939, a memorandum on recent business and credit developments, copies of which would be distributed. He then commented on the important points covered by the memorandum following which copies of the memorandum were handed to those present.

Mr. Williams made a statement in which he commented on various factors in the existing situation and the prospects for the continuation of the current recovery trend. A summary of Mr. Williams' statement has been placed in the files of the Federal Open Market Committee.

These statements were followed by a discussion of questions which were asked of Messrs. Goldenweiser and Williams, particularly with respect to the relation of prices to business conditions and the present and future prospects of the construction and housing industry.

The meeting recessed at 1:00 p.m. and reconvened at 2:15 p.m. with the same attendance as at the opening of the morning session except that Messrs. Thurston and Dreibelbis were not present.

Mr. Harrison moved that the following resolutions, which are in the same form as resolutions adopted at the meeting of the Federal Open Market Committee at its meeting on December 30, 1938, be adopted for substantially the same reasons given at the time of their adoption in December.

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.

Mr. Harrison's motion was duly seconded.

Reference was made to the circumstances under which action was

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taken by the Federal Open Market Committee at its meeting on December 30, 1938, and question was raised whether Messrs. Fleming, Martin and Hamilton, who had not attended that meeting, had read the minutes of the meeting. The Assistant Secretary stated that under the procedure in effect the three members mentioned had not been furnished with copies of the minutes although a copy had been sent to Mr. Leach who had attended the meeting as an alternate member. Mr. Fleming stated he had received the minutes of the meetings of the Committee for the past year from Mr. Sinclair but had not had an opportunity to read them.

In response to a suggestion by Mr. Davis it was understood that Chairman Eccles would appoint a committee of three members of the Federal Open Market Committee to consider the question whether copies of the minutes of the Federal Open Market Committee and its executive committee should be sent to the alternate members of the Committee, and to make a recommendation to the Committee with respect thereto and with regard to the procedure to be followed in furnishing minutes of the meetings of the Federal Open Market Committee and its executive committee to new regular members of the Committee elected to take office as of March 1 each year.

Mr. McKee suggested that for the purpose of acquainting the new members of the Federal Open Market Committee with the basis for the action at the meeting on December 30, 1938, the minutes of that meeting be read.

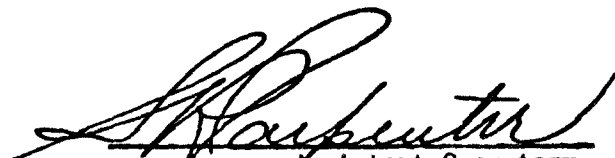
Mr. Harrison stated that if the members were to have a more complete background of the circumstances which led up to the action on December 30 it would be necessary that they read all of the minutes

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of the full Committee beginning with the meeting of April 21-22, 1938. It was agreed that Messrs. Leach, Martin and Hamilton would be furnished with copies of the minutes referred to by Mr. Harrison, that they and Mr. Fleming would read the minutes during the evening, and that the Committee would reconvene tomorrow morning for further consideration of the open market policy to be adopted by the Committee.

Thereupon the meeting recessed with the understanding that it would reconvene tomorrow, Tuesday, March 7, 1939, at 10:00 a.m.


Assistant Secretary.

Approved:


Chairman.

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:

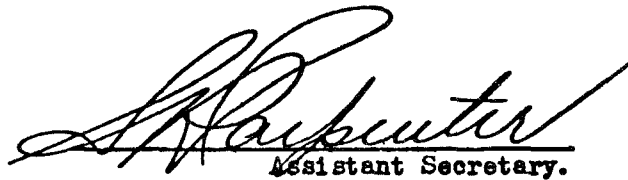
"I wish to explain my vote on this resolution. In my opinion many persons interested in financial affairs, and many financial officers of business concerns who follow the Federal Reserve weekly statements, fix their attention particularly upon the size of the System's portfolio. To them a change in its 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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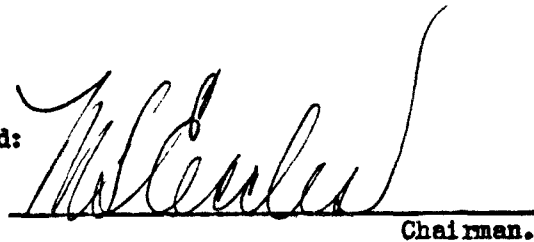
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"Therefore, until we are ready to make a real change in policy, I believe it most important to maintain the portfolio at its present size. For this reason, as well as for other reasons given by Chairman Eccles and Mr. Ransom, at the meeting on December 30, 1938, I wish to vote No on the Resolution."

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Chairman.