

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 Wednesday, April 19, 1939, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman  
Mr. Harrison, Vice Chairman  
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. Dreibelbis, Assistant General Counsel  
Mr. Thurston, Special Assistant to the  
Chairman of the Board of Governors

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee on March 7, 13 and 20, 1939, were approved, ratified and confirmed.

Mr. Harrison distributed copies of a report prepared at the Federal Reserve Bank of New York of operations in the System open market account during the period since the meeting of the Federal Open Market Committee on March 20, to the close of April 15, 1939, and discussed the matters covered by the report. He also reviewed the transactions effected in the account since April 15, 1939.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the account for the period from March 20 to April 18, 1939, inclusive, were approved, ratified and confirmed.

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For the information of the members of the Committee who were not at the meeting of the executive committee on April 14, 1939, Chairman Eccles reviewed the meetings held at the Treasury Department last week for the purpose of considering what action might be taken by the Government to meet the shock to business and the markets in this country which might result from the outbreak of a major armed conflict in Europe. He stated that at the meeting at the Treasury on April 13 the Secretary of the Treasury inquired what action the System was prepared to take to maintain orderly market conditions in the Government securities markets, that it was stated to the Secretary that the System undoubtedly would be willing to take action for the purpose of attempting to maintain orderly market conditions, and that the matter would be given consideration by the members of the Federal Open Market Committee who were in Washington. The Secretary stated, Chairman Eccles said, that he would like to have an answer by 4:00 p.m. on that day as he desired to be in a position to advise the President of the program that had been agreed upon.

Chairman Eccles stated further that at the meeting of the executive committee which was held on the afternoon of April 13 it was agreed unanimously that (1) the executive committee should ask the Federal Open Market Committee for authority, in the event of serious disturbance in the Government securities market resulting from armed conflict abroad, to direct the Federal Reserve banks to

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participate with the Treasury in outright purchases of securities, and in that connection to increase the System portfolio by not to exceed \$500,000,000 with the understanding that in making such purchases it might become necessary to exceed the \$900,000,000 limitation on bonds having maturities over five years contained in the second resolution adopted at the meeting of the Federal Open Market Committee on March 20, 1939, and (2) to advise the Secretary of the Treasury that the executive committee had agreed to request the full Committee for this authority it being understood that a meeting of the full Committee would be called for the early part of this week to ratify the action. Chairman Eccles added that Messrs. Szymczak, Ransom and Davis, who were present at the meeting of the executive committee, expressed agreement with the action of the committee and that Mr. Leach, who was communicated with by telephone on that day, also expressed approval.

Later in the afternoon of April 13, Chairman Eccles said, he and Mr. Harrison returned to the Treasury for the purpose of participating in a further discussion, when the Secretary was advised of the action of the executive committee.

Chairman Eccles made the further statement that after the meeting at the Treasury he reached the conclusion that the System should participate equally with the Treasury in any purchases of Government securities that might be made only until the Treasury had invested the approximately \$100,000,000 which it had available for

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investment on account of trust funds administered by the Treasury, and that thereafter all purchases should be made for the System open market account. He said that this point was discussed by the executive committee of the Federal Open Market Committee at a meeting on the morning of April 14, 1939 when he stated, as his reason for his position, that any purchases by the Treasury after available trust funds were exhausted would have to be with funds from the stabilization fund, which would create in the Treasury an open market portfolio of Government securities in addition to the System's portfolio, and that this condition would be undesirable for the reason that it would result in lessening the ability of the System to discharge its functions in the field of credit control. Chairman Eccles pointed out that the System has adequate authority to purchase large amounts of securities for the purpose of stabilizing the market and stated that he felt the System should assume this responsibility.

As a result of this discussion at the meeting of the executive committee, Chairman Eccles said, it was agreed unanimously that he should call the absent members of the Federal Open Market Committee on the telephone and that, in the event they approved the request of the executive committee for additional authority, the Secretary of the Treasury should be advised that the executive committee had authority to purchase up to \$500,000,000 of Government securities, that the System would be glad to participate with the Treasury in the purchase of securities on an equal basis until all of the available trust

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funds held by the Treasury were invested, and that thereafter the System would undertake to make all additional purchases required for the purpose of exercising a stabilizing influence on the market, with the understanding that if at any time the System needed the cooperation of the Treasury it would be called upon and if the Treasury felt that the situation was not being handled satisfactorily the Secretary of the Treasury would communicate with the Chairman.

Chairman Eccles added that in accordance with this decision of the executive committee he called Messrs. Fleming, Martin and Hamilton, who were the only members of the full Committee not present at the meeting of the executive committee on April 14, that they expressed full agreement with the proposed purchase of securities in the event of an emergency and approved the grant to the executive committee of the additional authority requested, and that, thereafter, the Secretary of the Treasury was advised by the Chairman as agreed upon by the executive committee.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the Federal Open Market Committee in authorizing the executive committee to increase the System portfolio by not to exceed \$500,000,000 and to exceed the \$900,000,000 limitation on bonds having maturities in excess of five years was approved, ratified and confirmed.

Mr. Goldenweiser reviewed briefly the present business situation. He stated that the production index for March would be approximately the same as in February since the anticipated rise had not

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materialized and it was likely that the level of business activity in April would be somewhat lower than March because of the strike in the coal industry. He said there was nothing in the statistics to indicate any material change in the situation but that there appeared to be a great deal more hesitancy on the part of business than was disclosed by available statistics and that there was no way of determining when that situation might reflect itself in reports of business activity. He added that the rather favorable inventory situation had not changed and that building activity was continuing at a somewhat better rate than had been expected.

There was then taken up for consideration the question of the authority to be granted to the executive committee to effect transactions in the System open market account and Mr. Harrison moved the adoption of the following resolutions, stating that he did so for substantially the same reasons as prompted the adoption of similar resolutions at the three previous meetings of the Committee:

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 \$1,000,000,000; 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 \$1,000,000,000.

Mr. Harrison's motion having been duly seconded, was put by the chair and carried, Mr. Draper voting "no".

Mr. Ransom stated that, in view of the fact that the executive committee had been given the power in case of market disturbances caused by an outbreak of hostilities in Europe to make much larger changes in the System's portfolio than those authorized by the present resolutions, and since flexibility of the portfolio independently of changes in general credit policy was thereby recognized as a part of the System's technique in certain circumstances, his reasons for opposing the resolutions were no longer applicable to the existing situation. Consequently he voted "aye".

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Mr. Draper stated that he voted against the adoption of the resolutions because he was opposed to authorizing the executive committee to allow bills to run off without replacement but that he otherwise was in favor of the resolutions.

There was also a discussion of the authority to be granted to the executive committee to increase the amount of securities in the System open market account in the event of a serious disturbance to the Government securities markets as a result of armed conflict or political developments threatening armed conflict abroad and Mr. Harrison moved that the following resolution be adopted:

That, in the event that armed conflict or political developments threatening armed conflict abroad result in serious disturbance to the Government securities market in this country, the executive committee be authorized, in addition to the authority granted by the resolutions set forth above and notwithstanding any limitations or restrictions in those resolutions, to increase the securities in the account by not to exceed \$500,000,000, and upon written, telephonic, or telegraphic approval of a majority of the members of the Federal Open Market Committee by not to exceed an additional \$500,000,000, if deemed necessary for the purpose of exercising an influence toward the maintenance of orderly market conditions, and, if and when market conditions warrant, to sell securities in the amount of any securities so purchased. Any purchases made under the authority of this resolution shall not be construed as limiting the powers granted under resolutions previously adopted at this meeting.

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

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 verify transactions in,



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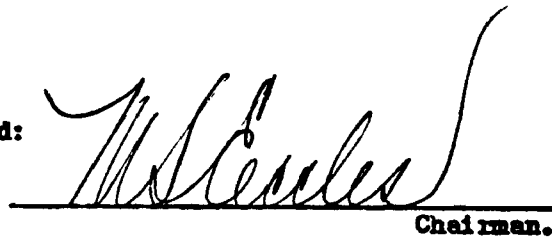
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the System open market account had given consideration to the matter but was not yet ready to submit a report.

Thereupon the meeting adjourned.

  
Assistant Secretary.

Approved:

  
Chairman.