A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Thursday, September 15, 1938, at 9:30 a.m.

PRESENT: Mr. Harrison, Vice Chairman
Mr. Szymczak
Mr. Davis
Mr. Sinclair
Mr. Ransom (alternate for Chairman Eccles)

Mr. Draper, Member of the Federal Open Market Committee

Mr. Carpenter, Assistant Secretary of the Federal Open Market Committee
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors
Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors

Mr. Ransom stated that in view of the resignation of Mr. W. R. Burgess as Vice President of the Federal Reserve Bank of New York and as Manager of the System Open Market Account and since Mr. Sproul, First Vice President of the bank, who has been selected by the bank to succeed Mr. Burgess as Manager of the system open market account subject to his selection being satisfactory to the Federal Open Market Committee, had remained in New York in order to keep in close touch with the market, he (Mr. Ransom) had requested Mr. Piser to come to the meeting for the purpose of giving the executive committee information with respect to conditions in the Government securities market and that, if agreeable to the other members of the committee, Mr. Piser would attend the meeting.

There being no objection, Mr. Piser was requested to attend the meeting.

Messrs. Harrison and Piser discussed recent developments in the Government securities market. Mr. Harrison said that it was possible that there might be a strong reversal of the recent weakness in the market with the result that a favorable opportunity would be presented to dispose of the notes and bonds purchased for system account during the last three days, that Mr. Sproul had stated over the telephone that the Federal Reserve Bank of New York was, in fact, offering securities for sale in the market at prices only slightly above current quotations, and that he (Mr. Harrison) would like to suggest that the committee consider whether, in the event of a strong upturn in prices, advantage should not be taken of the opportunity to dispose of additional long-term securities from the account.

At this point Mr. Ransom reviewed for the information of the other members of the Committee the conversations which he had had over the telephone with Chairman Eccles on September 12 and 13 with respect to recent developments in the Government securities market and stated that Chairman Eccles had expressed the opinion that he could find no justification for a further increase at this time in the total amount of securities held in the system open market account and that such an increase would be inevitably construed as a deliberate effort to support the market for Government securities. The Chairman, Mr. Ransom said, was less opposed to shifts from short-term to long-term securities in the account but felt that such action only reduced the ability of the committee later to make effective a policy which involved a reduction in excess reserves of member banks. Mr. Ransom said also that, while the Chairman had no criticism to make of the action taken during the recent period, he questioned whether responsibility for exercising an influence toward an orderly market should be assumed in the light of the existing conditions and that he also felt that there should not be an increase in the system account or a substantial lengthening of maturities without a meeting of the full Committee.

There ensued a discussion of the extent of the responsibility of the Federal Open Market Committee for orderly conditions in the Government securities market under conditions which obtain at the present time. During the discussion Mr. Harrison stated that in recent months he had come to question whether the Committee had not gone into the market too quickly and too frequently to try to moderate movements which, in some cases, were merely temporary and not the result of a definite trend. He suggested that better results might be obtained in the future if the committee were less responsive to minor fluctuations than it has been at times in the past. Mr. Ransom raised the question whether it was not a better procedure to enter the market in the early stages of a situation, which might develop into a disorderly rise or fall in the market, as a means of preventing the disorderly condition.

After further discussion of the advisability of the sale of bonds and notes purchased during the last two days, it was agreed that

Mr. Harrison should call Mr. Sproul on the telephone and advise him that if the New York bank saw an opportunity to sell some of the securities purchased during the last two days and to replace them with bills, without such shifts having an unfavorable effect on the market, the members of the executive committee would favor such action.

At this point Mr. Dreibelbis, Assistant General Counsel, joined the meeting.

Mr. Harrison left the meeting to advise Mr. Sproul over the telephone of the views of the committee, and upon his return informed the other members of the committee as to the developments in the bond market as reported by Mr. Sproul.

Mr. Harrison then suggested that the committee should give some consideration to the policy that might be followed by the Federal Reserve System in the event war should break out in Europe. He felt that in such an event, if the Stock Exchanges should close it would probably be necessary, in order to prevent panicky disorder in the Government security market, either to close the over-the-counter market or else to have the System prepared to make substantial purchases of Government securities or freely to make loans upon the collateral of Government securities or both. Whether or not the over-the-counter market should close, he thought that, in order to meet legitimate requirements of the holders of Government securities, it would be wise for the Federal Reserve banks to let it be known promptly that they were prepared to make loans to individuals, partnerships and corporations secured by direct obligations of the United States under the last paragraph of Section 13 of the Federal Reserve Act. In the beginning, he said, it might be wise to have the rate on such loans the same as the discount rate or nearer to it than at present and probably the Reserve banks should loan at par, - certainly to member banks. After the markets began to reopen and quotations were available on Government securities, such Federal Reserve bank loans might well be made at the market so far as borrowers other than member banks are concerned. It would also be desirable, Mr. Harrison said, after conditions became stabilized, to increase the rate on such loans to individuals, partnerships and corporations other than member banks. He felt that it would be a mistake to lend at par to individuals and corporations if, after the markets were reopened, Government securities sold at less than par. Mr. Harrison's suggestions were discussed in the light of the effects that war might have on the American money market, particularly in the event the United States were sooner or later involved in the conflict.

Reference was made to the fact that the payment for the $803,000,000 of new Government securities being issued by the Treasury today will result in a reduction in excess reserves of member banks to approximately $2,500,000,000 of which approximately $1,200,000,000 will be in New York City. All of the members indicated that they felt it was very doubtful that the reduction in excess reserves of member banks would have any tightening effect on the money market.

Mr. Harrison referred to the suggestion which he had made at previous meetings of the Federal Open Market Committee and the executive committee with respect to allowing maturing bills in the system open market account to run off without replacement. He said that, since the Treasury was willing to see a substantial reduction in excess reserves as a result of member banks using a portion of such reserves to pay for their allotments of the new issues of Government securities and since the Treasury was holding approximately $700,000,000 of imported gold in the general fund which could be expended and thereby increase excess reserves of member banks, he did not see how some reduction in the amount of securities in the system open market account, for purposes of maintaining orderly conditions in a rising market, could now be regarded as being contrary to the Government program of maintaining large amounts of excess reserves at member banks. In this connection he pointed out that the amount of gold held in the general fund of the Treasury was approximately the same amount as the amount of the reduction in reserve requirements of member banks which was effected on April 15 of this year. In connection with this point he made the suggestion that what the policy of the Committee should be with respect to an increase or decrease in the system account was a question to be decided on its merits in relation to the money market and that a reduction in the system portfolio could no longer be regarded as being contrary to the Government program since the Treasury itself evidently no longer felt that excess reserves of member banks need necessarily be maintained at the level of recent months.

Mr. Harrison then referred to the action taken by the board of directors of the Federal Reserve Bank of New York on September 8 in appointing Mr. Sproul as Manager of the System Open Market Account subject to the selection being satisfactory to the Federal Open Market Committee. Mr. Harrison said that pending action by the Committee on the selection it would not be possible for Mr. Sproul to serve in that capacity and that, while under the by-laws of the Federal Open Market Committee the Federal Reserve Bank of New York is the agent for the execution of transactions for the system open market account and, therefore, there was no absolute necessity for action on the selection of Mr. Sproul today, he (Mr. Harrison) would like to have the matter settled as promptly as possible. All of the members of the executive committee concurred in the opinion that no action need be taken in the matter pending the next meeting of the Federal Open Market Committee.

> Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the executive committee of the Federal Open Market Committee held on August 2, 1938, were approved.

> Upon motion duly made and seconded, and by unanimous vote, the transactions in the system open market account during the period from August 2 to September 14, 1938, inclusive, were approved, ratified and confirmed.

There followed a discussion of the action to be taken by the executive committee with respect to the authority to be granted to the Federal Reserve Bank of New York to execute transactions in the system open market account and it was agreed that the existing authority should be renewed with the understanding that the amount of bonds in the account should not be reduced below $750,000,000 and that, in accordance with the limitation placed on the authority of the executive committee by the Federal Open Market Committee to make shifts in the account, the amount of bonds with maturities over five years should not be increased above $850,000,000.

Thereupon, upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York until otherwise directed by the executive committee,

(1) To replace maturing securities in the system open market account by purchases of like amounts of Treasury bills or Treasury notes provided such purchases can be made without paying a premium above a no-yield basis;

(2) To make such other shifts of securities in the account (which may be accomplished when desirable through replacement of maturing securities) as may be necessary in the practical administration of the account up to an aggregate of $200,000,000 of purchases and a like amount of sales or redemptions, provided that the total amount of bonds held in the account be not reduced below $750,000,000 and that the total amount of bonds in the account having maturities over five years be not increased above $850,000,000;

(3) To increase or decrease temporarily the amount of securities in the account between weekly statement dates by not more than $50,000,000 when necessary in making replacements or shifts pursuant to the above provisions of this resolution, provided that the amount of securities in the account as of any weekly statement date shall not be changed from that of the preceding weekly statement date except pursuant to the other provisions of this resolution; and

(4) Upon approval by a majority of the members of the executive committee, which may be obtained by telephone, telegraph, or mail, to make such other shifts or such purchases or sales (which would include authority to allow maturities to run off

without replacement) for the account as may be found to be desirable within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

There was also discussion as to when the next meeting of the Federal Open Market Committee might be held and it was suggested that a meeting be held in the latter part of October, possibly on October 24. Mr. Harrison stated that there had been some discussion of the desirability of calling a Presidents' Conference and he would ascertain whether that date would be satisfactory to the presidents of other Federal reserve banks.

Thereupon the meeting adjourned.

S R Carpenter
Assistant Secretary.

Approved: Geo. L. Harrison.
Vice Chairman.