

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 Monday, March 13, 1939, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. McKee
Mr. Draper
Mr. Leach

Messrs. Szymczak and Davis, Members of the
Federal Open Market Committee

Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Dreibalbis, Assistant General Counsel
Mr. Sproul, Manager of the System Open
Market Account
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

Chairman Eccles reported that during the late afternoon of Friday, March 10, 1939, Mr. Ransom received a telephone call from the Secretary of the Treasury, the substance of which Mr. Ransom immediately communicated to the Chairman. The Chairman said that the Secretary expressed the view that the Government securities market was going up too rapidly, that he believed something should be done to meet the situation, that he had given the Federal Reserve Bank of New York an order to sell \$10,000,000 of bonds from the trust accounts administered by the Treasury, and that he would like to know if the Federal Reserve System would join with the Treasury in the sale of bonds under an arrangement similar to that under which

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securities had been purchased in the past by the System and the Treasury when the market was under pressure. Chairman Eccles said that, after discussing the matter with Messrs. Goldenweiser and Piser, it was decided that this meeting should be called for consideration of the question. He said that Mr. Ransom was confined to his home with a cold today and for that reason was not able to attend this meeting.

At the request of the Chairman, Mr. Piser read a memorandum prepared by him under date of March 11, 1939, and Chairman Eccles read a memorandum prepared by Mr. Goldenweiser on the same date. The memoranda discussed the advisability of sales of securities from the System open market account, pointed out that conditions in the market were not disorderly but represented an adjustment to underlying conditions, and concluded on the basis of reasons stated in the memoranda that such sales would not be desirable at this time.

The committee discussed the question presented by the Secretary of the Treasury as well as other matters affecting the current money market situation, including the existing large amounts of excess reserves and the indication that these reserves will increase substantially in the near future, the Government silver policy, and the gold situation. It was the general consensus that any action taken in furtherance of a program of sales of bonds could have only a temporary influence in slowing down an upward movement of the market because the strength of the market was due to fundamental causes which would not be reached by the action suggested.

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Question was raised as to what the Secretary hoped to accomplish by the proposed action and whether he had anything in mind other than a temporary step to meet the immediate situation.

It was agreed that Chairman Eccles should advise the Secretary of the Treasury that the executive committee had discussed the matter presented by him, that in the existing circumstances the committee did not have authority to sell bonds from the account other than in connection with shift transactions, and that before deciding whether a meeting of the full Committee should be called the executive committee would like some further information as to what the Secretary had in mind.

Chairman Eccles left the room and upon his return stated that he had talked with the Secretary over the telephone and that he had agreed to meet at 3:15 p. m. today with such members of the executive committee and its staff as the committee might wish to have participate.

It was agreed that Messrs. Eccles, Harrison, Leach, Goldenweiser and Sproul should attend the meeting with the Secretary of the Treasury.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account during the period from March 7 to March 11, 1939, inclusive, were approved, ratified and confirmed.

It was agreed that there was no reason for making any change in the authority granted to the New York bank to execute transactions in the System open market account.

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 Treasury Bills in the System open market account by purchases of like amounts of Treasury bills or Treasury notes with the understanding that the total amount of securities in the account maturing within two years shall not be reduced below \$1,000,000,000; 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, provided 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 \$100,000,000;

(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 securities in the account maturing within two years be not reduced below \$1,000,000,000 and that the total amount of bonds held in the account be not reduced below \$700,000,000 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

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within the limits of the authority granted to the executive committee by the Federal Open Market Committee.

At 12:45 p.m. the meeting recessed and reconvened at 4:35 p.m. with Messrs. Eccles, Harrison, McKee, Draper, Leach, Szymczak, Davis, Carpenter, Wyatt and Thurston in attendance.

Chairman Eccles stated that the representatives of the executive committee had met with the Secretary of the Treasury at 3:15 p.m. and that he (Chairman Eccles) had stated that because of the illness of Mr. Ransom, who had received the Secretary's original telephone call, and the questions that had arisen in connection with the Secretary's inquiry whether the System would cooperate in a program contemplating the sale of bonds, the executive committee would like some further information as to what the Secretary had in mind.

The Secretary of the Treasury stated, Chairman Eccles said, that he felt the upward movement of the Government securities market was too rapid and might result in a disorderly market, that he felt something should be done about it, that he had ordered the Federal Reserve Bank of New York to sell \$10,000,000 of bonds out of Treasury trust accounts, that the Treasury had between \$70,000,000 and \$80,000,000 of additional bonds which it was prepared to sell if conditions warranted, and that he would like to have the System consider whether it would participate in such a program. Chairman Eccles stated that he advised the Secretary that the executive committee did not have authority to sell securities from the System account except in connection with shift

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transactions and that before bonds could be sold from the account it would be necessary to have a meeting of the Federal Open Market Committee to decide the question. The Secretary of the Treasury replied that, as he had stated before, he felt the System portfolio should be a flexible one, that action should be taken by the System to slow down a rapidly rising market in the same manner as it had taken action to prevent disorderly conditions on a decline. He then asked for an expression of opinion as to whether there would be any objection on the part of the System to the Treasury selling bonds at the present time for the purpose he had indicated. Chairman Eccles said that the representatives of the System present had stated their personal views that if the Treasury had securities available in its trust funds for this purpose there would be no objection from the standpoint of the money market and that it would be a good thing for the Treasury to sell bonds. Chairman Eccles added that it was pointed out to the Secretary that the sale of bonds was merely a temporary expedient to meet an immediate situation, that the underlying strength in the market was a result of the huge amount of excess reserves which would increase considerably in the future, and that there were two problems to be considered, (1) what should be done to meet the fundamental problem of excess reserves and problems related thereto, and (2) what action should be taken to prevent a too rapid rise in Government security prices. Chairman Eccles stated further that the Secretary expressed the opinion that the Federal Reserve System should initiate any consideration of the problem of ex-

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cess reserves and said that he would be glad to consider any comments that the System might have to make regarding the matter, and that perhaps this was a subject which properly could be referred to the Fiscal and Monetary Committee. The statement was also made to the Secretary, Chairman Eccles said, that, if the Treasury would issue an additional amount of Treasury bills instead of issuing additional securities of the Reconstruction Finance Corporation, the System would be able to exchange bonds held in the System account for bills (which it is not able to do at the present time without further distorting the market for bills), and thereby exert some restraint on the Government bond market without having to run the risks inherent in reducing its portfolio by the outright sale of bonds. The reply of the Secretary to this suggestion was that he was not willing to issue additional bills at this time in view of the fact that he already had a working balance of approximately \$2,500,000,000.

Chairman Eccles said that the suggestion was also made that an immediate step which might be taken to restrict the growth of excess reserves would be for the Treasury to transfer some of its balances with depositary banks to the Federal Reserve banks and the Secretary suggested that Messrs. Goldenweiser and Sproul explore that suggestion further with Messrs. Bell, Assistant to the Secretary of the Treasury, Haas, Director of the Division of Research and Statistics, and White, Director of the Division of Monetary Research, of the Treasury Department.

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During the discussion of Chairman Eccles' report Messrs. Goldenweiser and Sproul joined the meeting.

Mr. Goldenweiser stated that he and Mr. Sproul had met with the representatives of the Treasury designated by the Secretary for the purpose and discussed with them the desirability of the Treasury transferring some of its balances from the depositary banks to the Federal Reserve banks for the purpose of holding down the volume of excess reserves of member banks and that while the Treasury representatives agreed that it would be possible gradually to draw down the funds in depositary banks as the Treasury needed funds, they felt that the operation involved some risk of the depositary banks being alarmed and of interfering with recovery objectives and that the Treasury might not want to take this risk. Mr. Goldenweiser added that the Treasury representatives suggested that if the Federal Reserve System felt that the matter was important it should recommend the action to the Treasury.

Inquiry was made whether the questions before the executive committee could not be communicated to the absent representative members of the Federal Open Market Committee by telephone and any action decided upon taken under the authority of the second of the resolutions adopted at the meeting of the full Committee on March 7, 1939. The opinion was expressed that the questions involved were important enough to justify a meeting of the full Committee.

At the conclusion of the discussion it was agreed that a meeting of the full Committee should be called to convene in

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Washington on Monday, March 20, 1939, at 10:00 a.m. and that the agenda for the meeting should include the following topics:


1. Whether the System would be willing to participate with the Treasury in the sale of bonds for the purpose of checking a too rapid rise in the Government securities market.
2. Whether bills held in the account should be allowed to mature without replacement for the purpose of meeting the present situation in the Government securities market or for any other reason.
3. What should be done to meet effectively the situation resulting from the increasingly large amount of excess reserves of member banks.

In connection with the discussion of the date for the meeting inquiry was made whether March 20 would be early enough in the event the market should begin another advance and it was stated that since the Treasury had a substantial volume of bonds available for sale to check a too rapid rise there appeared to be no necessity for calling the meeting before that date.

Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Chairman.