

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, April 13, 1939, at 3:10 p.m.

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

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

Mr. Carpenter, Assistant Secretary of
the Federal Open Market Committee

Chairman Eccles stated that for the past three days he and Mr. Goldenweizer had attended meetings at the Treasury which had been called by the Secretary and had been attended by Commissioners Douglas and Frank of the Securities and Exchange Commission, the Secretary of Agriculture and another representative from the Department of Agriculture, and representatives of the Treasury Department for the purpose of discussing what action might be taken by the Government to meet the shock to business and the markets in this country which would result from a major armed conflict in Europe. He said that yesterday Messrs. Harrison and Knoke of the Federal Reserve Bank of New York, and Mr. Bartlett, Chairman of the Board of Governors of the New York Stock Exchange, were requested to come to Washington for further consideration of the matter today, and that at the meeting this morning the Secretary inquired what action the System was

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prepared to take to maintain orderly conditions in the Government security market.

Chairman Eccles said that he made it clear that the System would not approve any transactions for the purpose of pegging the market but undoubtedly would be willing to take action for the purpose of attempting to maintain orderly market conditions and that he would take the matter up with the members of the executive committee of the Federal Open Market Committee who were in Washington. The Secretary stated, Chairman Eccles said, that he would appreciate it if he could have an answer by 4:00 p.m. today for the reason that he desired to be in a position to advise the President of the program that had been agreed upon.

Chairman Eccles then referred to the draft of press statement that had been prepared in the Board's offices last September which it was contemplated might be issued by the Board in the event of war and said that a recent redraft of the statement was read at the meeting at the Treasury Department yesterday, that he suggested that instead of the Board of Governors issuing a separate statement, it would be more satisfactory if a single statement were issued covering the entire field of the action to be taken by the Government, and that the Secretary of the Treasury agreed with this suggestion.

At the meeting at the Treasury, Chairman Eccles stated, there were discussions of three things that the System might do; (1) participate with the Treasury in the purchase of Government

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securities for the purpose of stabilizing the Government securities markets, (2) announce that the Federal Reserve banks were prepared to loan on Government securities at par to member banks, nonmember banks and possibly others, and (3) reduce margin requirements on loans made for the purpose of purchasing or carrying securities. He stated that the first step was a matter for consideration by the Federal Open Market Committee and that this meeting of the executive committee had been called to consider the question.

It was agreed unanimously (1) that 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 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 that authority, it being understood that a meeting of the full Committee would be held on Monday or Tuesday of next week to ratify the action.

Messrs. Szymczak, Ransom and Davis stated that they were in agreement with the action of the executive committee.

In view of the fact that there was not sufficient time before this meeting was called to notify Mr. Leach and afford him an opportunity to come to Washington to attend the meeting, the Assistant Secretary was requested to

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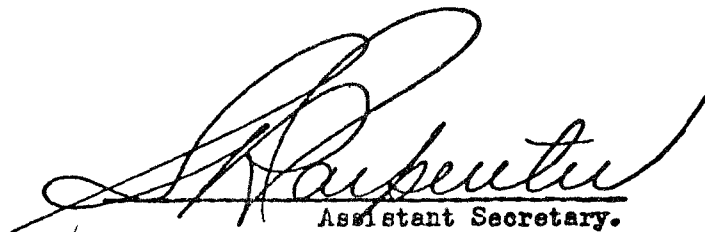
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call Mr. Leach and advise him of the action taken and ascertain whether he concurred in the action.


Chairman Eccles stated that it was necessary for him and Mr. Harrison to return to the Treasury for a further conference with the Secretary and that he would suggest that, if agreeable to the other members of the executive committee, this meeting recess until 10:30 a.m. tomorrow when the committee would meet again for a further discussion.

Thereupon the meeting recessed to reconvene at 10:30 a.m. tomorrow.

(Secretary's note: In accordance with the request of the executive committee, the Assistant Secretary called Mr. Leach on the telephone at 5:10 p.m. and advised him of the committee's action. Mr. Leach stated that he had felt that in the event of hostilities abroad the Federal Open Market Committee would have to take action along the lines contemplated and that he was in agreement with the executive committee's action. He also stated he would attend the meeting of the executive committee tomorrow.)


Assistant Secretary.

Approved:


Chairman.

The meeting of the executive committee of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Friday, April 14, 1939, at 10:30 a.m.

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

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

Mr. Carpenter, Assistant Secretary of
the Federal Open Market Committee
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Dreibelbis, Assistant General Counsel

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the executive committee held on March 7, 13 and 20, 1939, were approved.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period from March 20 to April 13, 1939, inclusive, were approved, ratified and confirmed.

Chairman Eccles stated that following the meeting of the executive committee yesterday he and Mr. Harrison returned to the Treasury and advised the Secretary of the Treasury of the decision of the executive committee to 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 increase the amount of securities in

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the System account by not more than \$500,000,000 and to exceed the \$900,000,000 limitation on bonds having maturities over five years to the extent made necessary by conditions within the limitations of the \$500,000,000 authority to increase the amount of securities in the account.

The whole matter was discussed in more detail, Chairman Eccles said, and following the meeting at the Treasury he reached the conclusion that the System should participate equally with the Treasury in all purchases that might be made only until the Treasury had invested the approximately \$100,000,000 which it now holds for investment on account of trust funds administered by the Treasury and that thereafter all purchases should be made for the System account. He explained to the committee as his reason for this 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. This would be undesirable, he said, for the reason that it would result in lessening the ability of the System to discharge its function in the field of credit control. Furthermore, Chairman Eccles said, the System has adequate authority to purchase large amounts of securities for the purpose of stabilizing the market in the event of a major disturbance and, therefore, he felt that the System should assume responsibility therefor and that the Secretary of the Treasury should be advised

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that the System will participate on an equal basis with the Treasury until the Treasury has invested the trust funds which it has available and that thereafter the System, in consultation with the Treasury, will make such purchases for the System account as appear to be made necessary by developments.

During the discussion of this matter, Mr. Harrison mentioned that, in the past, some members of the Committee had felt that the account should not be reduced, under any circumstances, until conditions warranted a change in the present easy money policy, that even though a lack of available short term obligations or a continued or rapid rise in the bond market made replacements of maturities difficult, as a market matter, the account should not be allowed to run off lest it be misunderstood as an assumption of responsibility for the market, a responsibility which those members of the Committee felt could not be assumed until the Federal Reserve System had more complete powers of credit control. Mr. Harrison asked whether, in these circumstances, if purchases of Government securities were made under the authority now being requested, the members of the Committee would object later, to equivalent sales of securities after the emergency had passed, provided market conditions justified such sales. It was the consensus of the members present that, while the question raised by Mr. Harrison would have to be decided on the basis of conditions existing at the time, there would be no objection to such sales solely on the ground that no sales should be made before

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conditions warranted a change in the present easy money policy. It was felt, of course, that the Committee should keep an open mind on the question whether securities purchased in an emergency should or could be sold when the emergency is passed.

There followed a discussion of the procedure to be followed in lending support to a seriously disturbed Government securities market resulting from armed conflict abroad. Mr. Harrison said that, while any preconceived plan of action could only be provisional and must accommodate itself to events, he would suggest for consideration the following possible plan of action: (1) the System open market account be prepared to place bids in the market at prices slightly below the previous close of the market (or slightly below the prices prevailing in the market, if during a trading session); (2) make purchases of Government securities on a scale-down from these prices until certain agreed minimum prices (for the day) have been reached at which time, with the cooperation of all of the principal dealers in Government securities, trading would be stopped, as far as possible, for that day; and (3) on subsequent days trading could then be resumed at the minimum prices of the previous day and the same procedure followed. He said that whatever procedure is adopted it is important, in view of the paper profits which many holders of Government securities now have in their portfolios, that during the first days of the emergency, the System not place bids in the market at such prices as would unduly encourage potential sellers to dump their holdings for the purpose of realizing profits. The larger holders in the

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principal money centers, he said, could be advised of the situation and would probably be willing to refrain from trying to dump their holdings, in their own interest, as well as in the public interest, but a flood of sales by small holders, which would be large in the aggregate, could be stimulated if prices were supported too rigidly. He added that it could be ascertained at the close of each day on the basis of developments during the day how vigorously and how far the market should be supported on the following day.

Mr. McKee suggested that if the banks and other large holders know that the System is operating to prevent a rapid decline in the market they will not sell their securities in large amounts because of the necessity of retaining investments for earnings and that he felt that consideration should be given to the advisability of staying close enough to current quotations in the market so that as the market declined the System would take some securities rather than reduce bids as the market declines so as to stay just under current quotations. Mr. Harrison said that the procedure he had in mind contemplated staying close to the market and buying securities as the market declined.

In connection with the procedure suggested by Mr. Harrison, he also stated that he understood that the New York Stock Exchange and other markets were planning to operate in a similar manner and that the same procedure possibly would be followed in the markets in England.

Various aspects of the suggested procedure were considered and it appeared to be the feeling of the members of the Federal Open

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Market Committee present that it was a desirable one and that it should be made clear in connection with the procedure that short-selling during any period of disturbed conditions would be strongly objected to.

Further consideration was then given to whether any further statement should be made to the Secretary of the Treasury with respect to participations of the System and the Treasury in any purchases of securities that might be made and it was agreed unanimously that Chairman Eccles should call the absent members of the Federal Open Market Committee on the telephone and, in the event they approved the request of the executive committee for additional authority, the Secretary of the Treasury be advised when Chairman Eccles and Mr. Harrison go to the Treasury for a further meeting with the Secretary at 4:00 p.m. today that the executive committee has authority to direct the Federal Reserve banks to purchase up to \$500,000,000 of securities, that the System will be glad to participate with the Treasury in the purchase of securities on an equal basis until all of the available trust funds held by the Treasury are invested after which the System will 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 needs the assistance of the Treasury it will be called upon and if the Treasury feels that the situation is not being handled satisfactorily the Secretary will communicate with the Chairman.

The meeting recessed and reconvened at 2:30 p.m. with the same attendance as at the morning session except that Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors, was in attendance.

Chairman Eccles reported that he had talked over the telephone

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with Messrs. Fleming, Martin and Hamilton, the absent members of the Federal Open Market Committee, each of whom expressed complete agreement with the proposed purchase of securities in event of an emergency and approved the grant to the executive committee of the additional authority requested.

In a discussion of the authority to be granted by the executive committee to the Federal Reserve Bank of New York to execute transactions for the System open market account there was unanimous agreement that any authority given to the bank to increase the amount of securities in the account should be exercised only in the event of serious disturbance in the Government securities market resulting from armed conflict abroad.

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 in making such shifts 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 increased or decreased by more than \$100,000,000;

(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;

(4) To make such outright purchases for the account as may be necessary for the purpose of exercising an influence toward maintaining orderly market conditions, provided that the total amount of securities in the account be not increased by more than \$250,000,000; and

(5) 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.

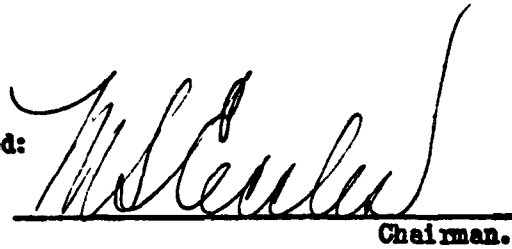
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Thereupon the meeting adjourned.


Assistant Secretary.

Approved:


Chairman.