Twenty-Sixth

ANNUAL REPORT

of the

BOARD OF GOVERNORS *of the* FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR
THE YEAR

1939

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."

These resolutions were adopted for the purpose of continuing the existing policy of the Federal Open Market Committee and for substantially the same reasons as prompted similar action at the meeting of the Committee on December 30, 1938. These reasons are set forth in the policy record on pages 80 to 84, inclusive, of the annual report of the Board of Governors for the year 1938.

MEETING ON MARCH 20, 1939

Members 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.

Authority (1) to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account and (2) to Increase or Decrease the System Open Market Account.

Upon motion duly made and seconded, the following resolutions, which were in the same form as the resolutions adopted at the meeting on March 7, 1939, were adopted, Messrs. Harrison, Szymczak, McKee, Davis, Fleming, Leach, Martin and Hamilton voting "aye" and Messrs. Eccles, Ransom and Draper voting "no":

"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.

This action continued the existing policy of the Committee and was taken for substantially the same reasons as prompted similar action by the Committee at its meetings on March 7, 1939, and December 30, 1938.

MEETING ON APRIL 19, 1939

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Draper, Mr. Fleming, Mr. Leach, Mr. Martin, Mr. Hamilton.

1. Authority to Increase System Open Market Account in the Event of Serious Disturbance in the Government Securities Market Resulting from Armed Conflict Abroad.

At this meeting Chairman Eccles reported that on April 13, 1939, the executive committee of the Federal Open Market Committee agreed unanimously 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 purchase of securities for the System portfolio in an amount 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 that on April 14, 1939, all of the members of the Federal Open Market Committee who were not members of the executive committee approved the granting of authority to the executive committee as set forth above.

Upon motion duly made and seconded, and by unanimous vote, the action of the members of the Federal Open Market Committee in granting this additional authority to the executive committee was approved, ratified and confirmed.

This action was taken because of the expectation that an outbreak of armed conflict in Europe would result in serious disturbance to the securities markets in this country and there was complete agreement that, should such disturbance occur, the System should be prepared to exercise its influence toward preventing disorderly conditions in the market for Government securities.