

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 Monday, February 28, 1938, at 3:45 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Sinclair
Mr. McKinney
Mr. Martin
Mr. Day

Mr. Morrill, Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Burgess, Manager of the System Open Market Account
Mr. Carpenter, Assistant Secretary of the Board of Governors of the Federal Reserve System

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on November 29, November 30, and December 1, 1937, were approved.

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 November 30-December 1, and December 13, 1937, were approved, ratified and confirmed.

Mr. Burgess referred to the report submitted by the Federal Reserve Bank of New York under date of February 24, 1938, of transactions effected in the System open market account since the last meeting of the Federal Open Market Committee, and outlined briefly the transactions

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which had taken place since February 24 and up to the close of business February 28, 1938. The transactions and the resulting changes in the maturities of securities held in the System account were discussed, including particularly the reduction which had taken place in the System's holdings of longer term bonds.

During the discussion, Mr. Young, President of the Federal Reserve Bank of Boston, joined the meeting as an alternate for Mr. Harrison who was unable to attend the meeting because of illness.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account since November 29, 1937, and up to the close of business February 28, 1938, were approved, ratified and confirmed.

Attention was directed to the memorandum which had been prepared by Mr. Williams in response to an informal request of the members of the Federal Open Market Committee on the subject "Did the Raising of Reserve Requirements Cause the Depression?" Copies of a draft of the memorandum had been sent to the members of the Committee by Mr. Williams under date of February 11, 1938, at which time he stated that he was giving consideration to adding another section to the memorandum and that the memorandum was only in draft form. At this meeting he stated that, after considering the matter further, he had decided not to make any further addition to the memorandum, as the subject matter of the contemplated additional section could be treated more appropriately in an entirely separate memorandum, and that, therefore, he

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wished to submit the memorandum in the form in which it was sent to the members of the Committee on February 11.

After a discussion of various sections of the memorandum, upon motion duly made and seconded, it was voted unanimously (1) to accept and file the report, with the understanding that the conclusions set forth therein did not necessarily represent the views of the members of the Federal Open Market Committee, and (2) to request Mr. Williams to prepare, for submission to the members of the Committee before the next meeting of the Federal Open Market Committee, the second memorandum covering the material which he had contemplated putting in a fourth section of the report.

In taking this action it was agreed that the Secretary should send under confidential cover to the Presidents who are not members of the Federal Open Market Committee copies of the memorandum submitted by Mr. Williams at this meeting, and, when completed, copies of the second memorandum to be prepared by him.

Reference was then made to the action taken at the meeting of the Federal Open Market Committee on November 30, 1937, when Chairman Eccles was requested to appoint a special committee to consider and submit a recommendation to the full Committee as to the position to be taken with respect to the extent, if any, to which the Presidents and boards of directors of the Federal reserve banks should be advised of discussions and actions of the Federal Open Market Committee. On behalf of the committee (Messrs. Szymczak, McKee and Sinclair) Mr. Szymczak

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stated that the committee had met on various occasions and decided to submit to the Federal Open Market Committee the following recommendations:

1. That the Presidents of the Federal reserve banks who are not members of the Federal Open Market Committee be invited to the preliminary discussions at the time of the regular meetings of the Federal Open Market Committee for advice and information. Thus the Presidents' Conference would precede or follow the regular meetings of the Federal Open Market Committee.
2. That the Federal Open Market Committee consider the adoption of a method by which members of the Federal Open Market Committee may freely discuss matters considered and actions taken at meetings of the Committee with the Presidents of the Federal reserve banks who are not members of the Committee. The method to be adopted should be consistent with the provisions of the rules and regulations of the Federal Open Market Committee.

In explanation of the second recommendation, Mr. Szymczak stated that the committee had not reached a unanimous decision on a recommendation as to the method by which the Presidents might be advised of discussions and actions of the Federal Open Market Committee, but were unanimously of the opinion that the question of giving such information to the directors of the Federal reserve banks should not be raised at this time.

Upon motion duly made and seconded,
the first recommendation was approved
unanimously.

In connection with the discussion of the second recommendation,

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reference was made to section 6 of Article I of the by-laws of the Federal Open Market Committee which provides that proceedings, deliberations, discussions and actions of the Committee, except as required by law and except as authorized by the Committee, shall be strictly confidential, and Mr. Young stated that he felt that the section was unduly restrictive, that he was not willing to be placed in the position of being unable to discuss with his directors matters relating to the Federal Open Market Committee and its deliberations and actions, and that the section should be amended.

There followed a general discussion of the question raised by Mr. Young, at the conclusion of which, upon motion duly made and seconded, the following resolution was adopted by unanimous vote:

RESOLVED, That the members of the Federal Open Market Committee be authorized to discuss in confidence with the President of any Federal reserve bank the matters considered and actions taken at meetings of the Committee and its executive committee.

Mr. Young stated that, while he had voted for the resolution, he wished again to make it clear that he did not approve the section of the by-laws of the Federal Open Market Committee referred to above.

Mr. Sinclair moved that the Committee during its session tomorrow consider the appointment of a special committee to study section 6 of Article I of the by-laws of the Federal Open Market Committee and to submit a report and recommendation as to changes in the section at the next meeting of the Federal Open Market Committee.

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

Thereupon the meeting recessed, with the understanding that the next session would be held on March 1 at 11 a.m.


Secretary.

Approved:


Chairman.

The meeting of the Federal Open Market Committee was recon-
vened in the offices of the Board of Governors of the Federal Reserve
System in Washington on Tuesday, March 1, 1938, at 11:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Sinclair
Mr. Newton
Mr. Schaller
Mr. Peyton

Mr. Morrill, Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Burgess, Manager of the System Open
Market Account
Mr. Carpenter, Assistant Secretary of
the Board of Governors of the Federal
Reserve System
Mr. Thurston, Special Assistant to the
Chairman of the Board of Governors
of the Federal Reserve System

The Secretary reported that records of the elections for the
period of one year commencing March 1, 1938, of members and alter-
nates representing the Federal reserve banks, or certified copies
thereof, had been received by the Secretary of the Committee; that
each newly elected member and alternate had filed the required oath
of office; and that it was the opinion of the Committee's counsel on
the basis of these documents that the newly elected members and alter-
nates present were legally qualified to participate in the meeting,
as follows:

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George L. Harrison, President of the Federal Reserve Bank of New York, with Roy A. Young, President of the Federal Reserve Bank of Boston, as alternate member;

John S. Sinclair, President of the Federal Reserve Bank of Philadelphia, with M. J. Fleming, President of the Federal Reserve Bank of Cleveland, as alternate member;

Oscar Newton, President of the Federal Reserve Bank of Atlanta, with Hugh Leach, President of the Federal Reserve Bank of Richmond, as alternate member;

George J. Schaller, President of the Federal Reserve Bank of Chicago, with Wm. McC. Martin, President of the Federal Reserve Bank of St. Louis, as alternate member; and

John N. Peyton, President of the Federal Reserve Bank of Minneapolis, with George H. Hamilton, President of the Federal Reserve Bank of Kansas City, as alternate member.

Upon motion duly made and seconded, the following officers of the Committee were re-elected by unanimous votes to serve until the election of their successors at the first meeting after March 1, 1939:

Marriner S. Eccles, Chairman
George L. Harrison, Vice Chairman
E. A. Goldenweiser, Economist
John H. Williams, Associate Economist
Walter Wyatt, General Counsel
J. P. Dreibelbis, Assistant General Counsel

Upon motion duly made and seconded, and by unanimous vote, the Committee selected the Federal Reserve Bank of New York to execute transactions for the System open market account until the adjournment of the first meeting of the Committee after March 1, 1939.

Mr. Harrison stated that it was his intention to recommend to the board of directors of the Federal Reserve Bank of New York the selection of Mr. Purgess as Manager of the System Open Market Account.

Upon motion duly made and seconded, and by unanimous vote, the Committee approved the selection of Mr. Purgess as Manager of the System

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account in the event of his reappointment by the board of directors of the Federal Reserve Bank of New York to act in that capacity.

Upon motion duly made and seconded, and by unanimous vote, the following were selected to serve with the Chairmen of the Federal Open Market Committee, who under the provisions of the by-laws is also chairman of the executive committee, as members and alternate members of the executive committee until the first meeting of the Federal Open Market Committee after March 1, 1939:

Members

M. S. Szymczak
Chester C. Davis
George L. Harrison
John S. Sinclair

Alternate Members

John K. McKee
Ronald Ransom
(to serve in the order
named as alternates for
Messrs. Eccles, Szymczak
and Davis)

George J. Schaller
John N. Peyton
(to serve in the order
named as alternates for
Messrs. Harrison and
Sinclair)

There were then presented by Mr. Ransom certain suggested amendments to the by-laws of the Federal Open Market Committee and the regulation adopted by it with respect to open market operations of Federal reserve banks.

After discussion of the proposed changes, upon motion duly made and seconded, the following amendments were approved unanimously:

Section 1 of Article I of the by-laws of the Committee was amended to read as follows:

"Prior to the first meeting of the Committee following March 1 each year, each member of the Committee representing the Federal reserve banks

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"shall cause a record of his election and of the election of the alternate to serve in his absence to be forwarded to the Secretary of the Committee. If any question be raised as to the election or eligibility of such member or alternate, the Committee shall determine such question before permitting such member or alternate to participate in the meetings."

The clause "and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting", was added to the last sentence of Section 5 of Article I of the by-laws so that the sentence would read as follows:

"Whenever any member of the Committee representing Federal Reserve banks shall find that he will be unable to attend a meeting of the Committee, he shall promptly notify his alternate and the Secretary of the Committee in writing or by telegram, and upon receipt of such notice the alternate shall advise the Secretary whether he will attend such meeting."

Section 2 of Article II of the by-laws was amended by substituting for the last sentence the following two sentences:

"At its first meeting after March 1 of each year the Committee shall elect an Assistant Secretary, to serve until the first meeting after March 1 of the next year. In the absence of the Secretary of the Committee, the Assistant Secretary shall act as Secretary pro tem."

The first paragraph of Section 7 of the regulation of the Federal Open Market Committee relating to open market operations of Federal reserve banks was amended to read as follows:

"No Federal Reserve bank shall purchase or sell Government securities, for its own account or for the account of any other Federal Reserve bank, except pursuant to authority granted by the Committee or in accordance with an open-market policy adopted by the Committee and in effect at the time."

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Paragraphs (1) and (2) of Section 8 of the regulation of the Federal Open Market Committee relating to open market operations of Federal Reserve banks were amended to read as follows:

"(1) Each Federal Reserve Bank, as may be required from time to time by the Committee, shall report all such transactions to the Secretary of the Committee.

"(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased and the rates of discount shall be established in accordance with the provisions of section 14(d) of the Federal Reserve Act: Provided, further, That no obligations payable in foreign currency shall be purchased or sold for the account of the Federal Reserve bank except in accordance with directions of the Committee."

Upon motion duly made and seconded, and by unanimous vote, S. R. Carpenter was elected Assistant Secretary of the Committee to serve until the election of his successor at the first meeting after March 1, 1939.

It was stated that at the meeting of the Board of Governors with the Presidents of Federal reserve banks yesterday, at which all of the members of the Federal Open Market Committee with the exception of Mr. Harrison were in attendance, Messrs. Goldenweiser and Williams, as economists for the Committee, reviewed the present business and credit situation. Copies of the memorandum prepared by Mr. Goldenweiser under date of February 26, 1938, on the subject of recent business and credit developments, which formed the basis of his statement, and a summary of Mr. Williams' statement which reviewed the

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possible trends of business activity in the near future, have been placed in the files of the Federal Open Market Committee.

There ensued a general discussion of open market policy and of the resolutions to be adopted by the Committee authorizing the executive committee to direct open market operations pending another meeting of the full Committee. Chairman Eccles stated that he felt the present policy should be continued for the reason that the excess reserves held by member banks are not excessive under existing circumstances; that, in view of the low volume of business activity, declining prices, and business uncertainty, no useful purpose would be achieved by reducing the total amount of securities held in the System open market account; and that such action might be misinterpreted and thereby result in a further unfavorable element in the business situation. He also expressed the opinion that the present policy of reducing the amount of holdings of long-term bonds in the System account should be continued in order to exercise some restraint upon increases in prices of Government bonds and to place the System in a better position to make purchases later if they should be necessary to maintain an orderly market. Others expressed agreement with this statement of principles.

Mr. Harrison stated that, while he did not wish at this time to vote for a reduction in the total amount of securities held in the System account, he felt that careful consideration should be given from time to time to the reasons that might be advanced for such action in

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order that the Committee might be ready to take that action whenever conditions might make it possible without undue risk. During the ensuing discussion of the circumstances under which the Committee might be justified in reducing the amount of securities held in the System open market account there was general concurrence in the opinion that such action should not be taken at this time.

There was also a discussion of ways in which a policy of reducing the System open market account might be made effective, such as through the sale of securities in the market thereby reducing excess reserves, or sales simultaneous with purchases by the Treasury to be paid for from the inactive gold account, which would not affect the excess reserve position of member banks. Reference was made to suggestions that had been made from time to time in the past that small fluctuations in the total amount of securities held in the account be permitted in order to prevent the appearance of inflexibility in the account and to prevent undue importance being attached in the market to the Committee's action when a decision is made to reduce the amount held in the account. Some of the members stated that they felt, however, that no change should be made in the portfolio until there is a change of policy as to the amount to be held, in order that the action of the Committee at that time might have as great a psychological effect as possible.

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Upon motion duly made and seconded, and by unanimous vote, the Committee instructed the executive committee, until otherwise instructed by the Committee, to direct the replacement of maturing securities in the System open market account with other Government securities and to make such shifts between maturities in the account as may be necessary in the proper administration of the account, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

Upon motion duly made and seconded, the Committee voted unanimously to authorize the executive committee, upon written, telephonic, or telegraphic approval of a majority of the members of the Committee, and until otherwise directed by the Committee, to direct the purchase in the open market from time to time of sufficient amounts of Government securities to meet the requirements of commerce, business, and agriculture by keeping at member banks an aggregate volume of excess reserves adequate for the continuance of the System's policy of maintaining credit conditions conducive to economic recovery; and to authorize the executive committee, upon written, telephonic, or telegraphic approval of a majority of the members of the Committee, and until otherwise directed by the Committee, to direct a reduction of the holdings of such securities, to the extent that their retention is found to be unnecessary for the purposes of this resolution. It was understood, however, that the executive committee, under this resolution, was not authorized to increase or decrease by more than \$300,000,000 the amount of securities now held in the System open market account.

Reference was made to the action taken at the session of the Federal Open Market Committee yesterday in voting to recommend that

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the Committee, at its meeting today, take action to appoint a special committee to consider Section 6 of Article I of the by-laws of the Committee in the light of the discussion at the meeting yesterday and to submit a report and recommendation at the next meeting of the Committee as to changes in the section.

Mr. Harrison moved that the Chairman be requested to appoint a special committee in accordance with the recommendation made at the meeting yesterday.

Having been duly seconded, Mr. Harrison's motion was put by the chair and carried by unanimous vote.

In accordance with the Committee's action, Chairman Eccles appointed Mr. Davis as chairman, and Messrs. Ransom and Sinclair as the other two members, of the special committee.

Thereupon the meeting adjourned.

Rhester Morris
Secretary.

Approved:

W. Eccles
Chairman.