

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 Wednesday, September 21, 1938, at 2:30 p.m.

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

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

Messrs. Leach, Martin, Hamilton, McKinney
and Day, Presidents of the Federal Re-
serve Banks of Richmond, St. Louis,
Kansas City, Dallas and San Francisco,
respectively

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

Reference was made to the informal understanding of the members of the Federal Open Market Committee reached since the last meeting of

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the Committee that, in the absence of Chairman Eccles, Mr. Ransom will serve as an alternate member of the executive committee.

Upon motion duly made and seconded, and by unanimous vote, the service of Mr. Ransom as an alternate member of the executive committee during the current absence of Chairman Eccles was approved, ratified and confirmed and he was selected to serve as an alternate member of the committee in future absences of the Chairman, it being understood that this selection would not affect the order of service of alternate members of the executive committee in the absence of other regular members of the committee or in the absence of both Chairman Eccles and Mr. Ransom.

Mr. Harrison referred to the resignation of W. Randolph Burgess as Vice President of the Federal Reserve Bank of New York and as Manager of the System Open Market Account and stated that the board of directors of the Federal Reserve Bank of New York had selected Allan Sproul, First Vice President of 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. Mr. Harrison suggested that, in accordance with Section 5 of Article II of the by-laws of the Committee which provides that the Manager of the System Open Market Account shall be satisfactory to the Federal Open Market Committee and shall serve at the pleasure of the Committee, action be taken by the Federal Open Market Committee at this time on the selection of Mr. Sproul.

Upon motion duly made and seconded, and by unanimous vote, the selection of Mr. Sproul was approved.

Mr. Harrison reviewed the operations in the system open market.

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account since the last meeting of the Committee, as outlined in the weekly reports sent by the Federal Reserve Bank of New York to the members of the Committee. He also reviewed the transactions which had been effected in the account during the last few days because of the unsettled market conditions resulting from developments in Europe and stated that since commitments to date would reduce the amount of bonds in the account to approximately \$778,000,000 he felt it would be desirable for the executive committee, when renewing its authority to the Federal Reserve Bank of New York to execute transactions for the system account, to lower the amount below which the system holdings of bonds might not be reduced.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the system open market account for the period from August 2, to September 19, 1938, inclusive, were approved, ratified and confirmed.

During Mr. Harrison's report Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors, joined the meeting.

There ensued a discussion of future policy of the Federal Open Market Committee in the light of continued improved domestic business conditions, and what appeared to be the diminished immediate possibilities of war in Europe consequent upon the recommendations by the English and French governments to Czechoslovakia that it agree to the annexation by Germany of the Sudeten German territory in Czechoslovakia. It was suggested that while a relaxation of tension in the European situation would make seriously disturbed market conditions less imminent,

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there was still considerable danger and uncertainty in the situation which might result in the necessity for emergency action, and that, in these circumstances, the authority granted to the executive committee to increase or decrease the system account upon written, telephonic, or telegraphic approval of a majority of the members of the Committee should be enlarged. Mr. Harrison suggested that at the appropriate time the Committee give further consideration to the conditions under which it would reduce the system account.

At the conclusion of the discussion, upon motion duly made and seconded, the following resolutions were adopted by unanimous vote:

That the executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for the replacement of maturing securities in the system open market account with other Government securities and for such shifts in maturities as may be necessary in the proper administration of the account, provided (1) that maturing Treasury bills shall be replaced only with Treasury bills or notes to the extent that they can be purchased without paying a premium over a no-yield basis; (2) that, subject to the foregoing limitation, the amount of securities in the account maturing within two years be maintained at not less than \$1,000,000,000; and (3) 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.

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 the

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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 or decreased by more than \$200,000,000, 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.

On behalf of the special committee (Messrs. Davis, Ransom and Sinclair) appointed to consider Section 6 of Article I of the by-laws of the Federal Open Market Committee and to submit a report and recommendation thereon, Mr. Davis stated that the committee wished to submit the following recommendation:

"That the last sentence of Section 6 of Article I, which reads as follows, be eliminated:

'Except as herein provided, no reports on the meetings of the Committee shall be made to any person or persons whatsoever.'

"The committee has concluded that the foregoing sentence, apart from being somewhat redundant, is unnecessarily restrictive and, when literally construed with the preceding sentence of Section 6, prevents the members of the Committee from reviewing with officials and directors of the Federal Reserve Banks the background and reasons for past actions or meetings and tends to restrict the members of the Committee from obtaining from these sources valuable background information on matters to be deliberated by the Committee. The elimination of the sentence will not remove the confidential nature of the matters considered and acted on by the Committee."

In explanation of the recommendation Mr. Davis stated that, if it were approved, the members of the Committee would be authorized to discuss with the officers and directors of the Federal reserve banks wholly completed actions of the Federal Open Market Committee but not

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the actions which are currently effective or continuing matters of policy. He said that the special committee did not feel that a resolution could be written which would define satisfactorily the matters that properly could be discussed, but that if it were clearly understood that the members of the Committee were expected to regard as strictly confidential actions and policies of the Committee which were still currently effective or continuing matters of policy, the Committee could rely on the judgment of its members to determine what constituted past and completed actions of the Committee which they would be at liberty to discuss with officers and directors of Federal reserve banks.

Upon motion duly made and seconded, and by unanimous vote, the recommendation of the committee was approved, and the by-laws were amended accordingly.

Mr. Davis stated that at the meeting of the executive committee of the Federal Open Market Committee on September 15, 1938, an informal request was made that he and Mr. Sinclair prepare a draft of a letter to Mr. Burgess with respect to his service as Manager of the System Open Market Account and that the following letter was submitted for the consideration of the Committee:

"The members of the Federal Open Market Committee have learned with regret of your resignation as Vice President of the Federal Reserve Bank of New York and as Manager of the System Open Market Account.

"No one in the Federal Reserve System has had a closer contact than you have had with the development of the facilities of the System for meeting its responsibilities

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"In the important field of credit control or a more intimate relation with the execution of the policies which have been adopted in the discharge of these responsibilities. The mature judgment which you were thus able to bring to the councils of the present Federal Open Market Committee as the newest instrument provided by the Congress to carry out the System's task in this field has made your service as Manager of the System Open Market Account an invaluable one.

"The close ties of friendship which were formed when you were associated with the members of the Federal Open Market Committee in meeting common problems is of great worth to them and they all join in wishing you every possible success in your new undertaking."

Upon motion duly made and seconded,
the letter was approved by unanimous vote.

Mr. Harrison stated that on two or three occasions recently he and Mr. Ransom had had an opportunity to discuss with the Secretary of the Treasury the policy of the Treasury Department with respect to gold imports, that a further discussion of the matter was had at the Treasury Department this morning when reference was made to the fact that the rapid increase to the present figure of \$844,000,000 in the amount of gold held in the general fund, of which \$683,000,000 was free gold, had attracted considerable public attention and comment in the press and otherwise as to what the policy of the Treasury with respect to the gold was to be, particularly in view of present indications that the account would be substantially increased in the near future by further gold imports. The Secretary advised, Mr. Harrison said, that he planned to deposit with the Federal reserve banks from time to time in round amounts enough gold to offset gold imports, the round amounts deposited to be slightly above actual imports with a result

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that there would be a small reduction in the amount of gold held in the account as long as the program was continued.

Following Mr. Harrison's statement the meeting adjourned.

Robert Moriel
Secretary.

Approved:

George L. Harrison.
Vice Chairman.