

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 Tuesday, June 20, 1939, at 3:30 p.m.

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

Mr. Morrill, Secretary  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Economist  
Mr. Williams, Associate Economist  
Mr. Dreibelbis, 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

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee held on March 6-7, March 20 and April 19, 1939, 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 April 13-14 and 19, 1939, were approved, ratified and confirmed.

Mr. Sproul distributed copies of a report prepared by the Federal Reserve Bank of New York of operations in the System open

6/20/39

-2-

market account since the last meeting of the Federal Open Market Committee on April 19, 1939, up to and including June 16, 1939, stating that there had been no transactions since the latter date, following which there was a brief discussion.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the System open market account for the period since that covered by similar action at the last meeting of the Federal Open Market Committee on April 19, 1939, to and including June 19, 1939, were approved, ratified and confirmed.

Reference was made to the fact that at the meeting of the Board of Governors with the Presidents of the Federal Reserve Banks preceding this meeting, at which all of the members of the Federal Open Market Committee were present, Messrs. Goldenweiser and Williams, as economists for the Federal Open Market Committee, reviewed business and credit conditions. Summaries of their statements have been placed in the files of the Federal Open Market Committee.

Chairman Eccles then presented for discussion the question whether any action should be taken at this time by the Committee with a view to a reduction in the amount of Treasury bills held in the System account and, if such action should be taken, whether there should be issued a public announcement of such action and the reasons therefor. In the course of the Chairman's remarks and the subsequent general discussion reference was made to the action taken by the Committee on December 30, 1938, the announcement issued by the Committee in that

6/20/39

-3-

connection, the subsequent replacements of Treasury bills in the System account, the fact that for some time past Treasury bills had been purchased for the System account at or near a no-yield basis, the difficulty at times of replacing maturing bills due to the fact that the supply of such bills had not always been equal to the market demand, the increasing volume of excess reserves, and the substantial rise which had taken place in prices of Government securities in recent months and the consequent decline in yields. Questions were raised and discussed as to whether it would serve any useful purpose in relation to open market policy to continue the full replacement of maturing Treasury bills, whether the present would be a suitable time to reduce the holdings of Treasury bills, and what might be the effect of such action upon the general credit situation. References were also made to a statement which had been submitted to the Board of Governors by the Federal Advisory Council at its last meeting with the Board of Governors on June 6, 1939, and, at the suggestion of Mr. Harrison and the request of the Chairman, the Committee's Secretary read the statement. A copy of the statement is contained in the files of the Federal Open Market Committee. The discussion developed the feeling that it would be desirable to have placed before the Committee a draft of a tentative statement indicating the reasons for the reduction if made, which might be considered before determining what action should be taken, and, thereupon, at 6:10 p.m. a recess was taken until the morning of June 21, with the understanding

6/20/39

-4-

that during the recess such a statement would be drafted by Messrs.  
Sproul, Thurston, Goldenweiser, and Williams.

Oliver Morris  
Secretary.

Approved:

W. Sproul  
Chairman.

The meeting of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, June 21, 1939, at 10:20 a.m.

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

Mr. Morrill, Secretary  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Economist  
Mr. Williams, Associate Economist  
Mr. Dreibelbis, 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

At the request of the Chairman, the Secretary read the draft of a proposed statement which had been prepared by Messrs. Sproul, Thurston, Goldenweiser, and Williams pursuant to the understanding reached before the recess was taken. There followed a general discussion of the contents of the statement and the reasons which various members of the Committee felt were important in their bearing upon the advisability of letting Treasury bills held in the System account mature without replacement either in whole or in part and whether there

6/21/39

-2-

was necessity for a public statement regarding such action. In this connection the question whether this was a suitable time to take action to allow Treasury bills to mature without replacement was particularly stressed by Mr. Draper. Mr. Ransom also expressed strong doubt as to the necessity or value of issuing any statement even though the Committee might decide to take the proposed action. In this connection some of the members of the Committee referred to the statement of December 30, 1938, and raised the question whether it would not be sufficient to take action without further explanation at this time, relying on that statement. With respect to this question, other members of the Committee expressed the opinion that the substantial lapse of time which had taken place since then without a reduction in the System portfolio pursuant to that action made it necessary to meet the situation at this time with a new statement.

At this point Mr. Sproul was asked to review the contents of the weekly reports of the Federal Reserve Bank of New York to the members of the Committee regarding replacements of Treasury bills for the System account since December and Mr. Sproul referred to the pertinent item in each week's report. During the course of the discussion the further suggestion was made that the Committee might agree upon the statement but defer its release until there is an actual reduction in the amount of Treasury bills held, with the understanding that at that time the executive committee would release the statement.

6/21/39

-3-

There was also discussion of a suggestion that before such action is taken, including the release of the statement, the Chairman should inform the Secretary of the Treasury so that if there were any reason that the Treasury might wish to offer for deferring such action the matter might be reconsidered. During the discussion Mr. Sproul was asked to advise the Committee on behalf of himself and his associates, Messrs. Thurston, Goldenweiser, and Williams, who prepared the draft of statement under consideration, as to the matters which influenced them in formulating its contents. Mr. Sproul stated that they had agreed that the proposed action should be related as closely as possible to the situation in the Treasury bill market even though it might have collateral or secondary effects upon excess reserves and upon the level of prices in the Government security market; that to try to relate it to the excess reserve position would clothe the action with a significance which it did not have; that they would not want to try to claim for the System the power or the ability to decide whether the Government security market was at the right level or at too high a level; and that in relating the action to the Treasury bill market it was desirable to refer back to the statement of December 30, 1938, because the action taken now, if it did not refer back to the earlier statement, might be open to misinterpretation in the market as no such action had been taken during the period of six months which had elapsed and action now might be deemed to be of a different character and therefore of greater significance than the

6/21/39

-4-

action contemplated then.

Following this statement each member of the Committee stated his view upon the question of the desirability of taking action at this time. Mr. Draper said that he was opposed to any action at this time and Mr. Ransom stated that he would defer his decision until the statement in its final form was before the Committee for vote. All of the other members of the Committee indicated that they would favor action at this time. Thereupon there was a review and discussion of the contents of the proposed statement. Various suggestions were made and it was agreed to ask Messrs. Sproul, Thurston, Goldenweiser, and Williams to prepare a revised draft.

Mr. Harrison made the suggestion, with which there was general agreement, that if the Committee took action at this meeting it do so with the understanding that the statement would only be released by the executive committee when a resolution pursuant to the action of the Committee actually takes place. Mr. Ransom then raised the question when the Secretary of the Treasury would be advised and it was agreed that this should be left to the Chairman to determine. Chairman Eccles stated that he would take the matter up with the Secretary when there was a convenient opportunity to discuss it with him, that he would like to read the press statement to the Secretary as a statement of the action of the Committee and explain to him, if necessary, exactly what the resolution of the Committee authorized, that if there were some question on the part of the Treasury that had not been anticipated by

6/21/39

-5-

the Committee he would feel that there should be a reconsideration by the Committee, and that this was the general procedure which had been followed in the past. Chairman Eccles added, however, that he would say nothing to the Secretary of the Treasury until it appeared that the reduction in the portfolio would actually take place. In this connection it was understood that the Chairman in discussing the matter with the Secretary of the Treasury would call to his attention the importance of avoiding any publicity in advance of the release by the executive committee of the statement when the reduction takes place.

Thereupon consideration was given to the resolutions adopted at the last meeting of the Federal Open Market Committee and changes to conform to the proposal to provide for reductions in the amount of holdings of Treasury bills, through permitting part or all of the bills maturing from time to time to run off without replacement, were agreed upon.

Upon motion duly made and seconded the following resolutions were adopted, the vote thereon being as follows: "aye" - Messrs. Eccles, Harrison, Szymczak, McKee, Davis, Fleming, Leach, Martin, and Hamilton: "no" - Mr. Draper. In accordance with his statement earlier in this meeting, Mr. Ransom withheld his vote on the resolutions until the press statement hereafter referred to was approved, when he voted "aye" on the resolutions:

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, whenever market conditions warrant, to allow part or all of such bills to mature without replacement; (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 practical administration of the account; provided (a) that the amount of securities in the account maturing within two years be maintained at not less than \$700,000,000; and (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 \$1,000,000,000.

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 excluding such decreases as may result from allowing Treasury bills in the account to mature without replacement under the preceding resolution, 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 \$1,000,000,000.

That, in the event that armed conflict or political developments threatening armed conflict abroad result in serious disturbance to the Government securities market in this country, the executive committee be authorized, in addition to the authority granted by the resolutions set forth above and notwithstanding any limitations or restrictions in those resolutions, to increase the securities in the account by not to exceed \$500,000,000, and upon written, telephonic, or telegraphic approval of a majority of the members of the Federal Open Market Committee by not to exceed an additional \$500,000,000, if

6/21/39

-7-

deemed necessary for the purpose of exercising an influence toward the maintenance of orderly market conditions, and, if and when market conditions warrant, to sell securities in the amount of any securities so purchased. Any purchases made under the authority of this resolution shall not be construed as limiting the powers granted under resolutions previously adopted at this meeting.

The committee composed of Messrs. Sproul, Thurston, Goldenweiser, and Williams reported and the Secretary read to the members of the Committee the draft of a revised statement which they had prepared. Certain changes were informally proposed during the discussion that followed.

Upon motion duly made and seconded, the Committee authorized the executive committee to release for publication the following statement when the first reduction takes place in the amount of Treasury bills pursuant to the foregoing resolution of the Federal Open Market Committee:

As a result of a reduction in holdings of Treasury bills, this week's statement of condition of Federal Reserve banks shows a decline of \$\_\_\_\_\_ in the System Open Market Account. This is in accordance with action taken by the Federal Open Market Committee on June 21, 1939. For some time past, Treasury bills have been purchased for the System's account at or near a no-yield basis and the account at times has had difficulty in replacing its maturing bills. It was decided that it would serve no useful purpose to continue full replacement of maturing bills, the supply of which is not always equal to the market demand. This action is in response to technical conditions in the bill market and does not represent a change in general credit policy.

It was agreed, however, that the second sentence in the statement should be omitted if no reduction takes place next week and the statement is issued at a later date.

The vote upon the approval of the foregoing statement was as follows: "aye" - Messrs. Eccles, Harrison, Szymczak, McKee,

6/21/39

-8-

Ransom, Davis, Fleming, Leach, Martin, and Hamilton; "no" - Mr. Draper.

Attention was directed to the fact that at the last meeting of the Federal Open Market Committee there had been referred to a special committee composed of Messrs. Draper, Leach, and Martin the question of the advisability of causing periodic or other audits to be made of the System open market account, and there was read by the Secretary to the Committee the report dated April 19, 1939, of this special committee which contained a recommendation "That a resolution be adopted requesting the Board of Governors to cause its examining force in the future to furnish the Secretary of the Open Market Committee a report of each examination of the System Open Market Account". There followed a brief discussion of the practice pursued heretofore by the examiners of the Board of Governors of the Federal Reserve System.

Upon motion duly made and seconded, and by unanimous vote, the recommendation of the special committee was approved.

In this connection it was agreed unanimously that the Secretary should immediately advise the Chief of the Division of Examinations of the Board of Governors of the action taken by the Committee with the suggestion that he communicate at once with the Board's examiners who it was understood were then at the Federal Reserve Bank of New York.

Reference was made to the earlier discussion during the meeting relating to the advice to be given to the Secretary of the Treasury with respect to the action of the Committee.

Upon motion duly made and seconded, the Chairman of the Committee was authorized to

advise the Secretary of the Treasury of the action which the Committee had taken with respect to the proposed reduction in the amount of Treasury bills held and in that connection the understanding was stated that the Chairman in advising the Secretary of the Treasury would call to his attention the importance of there being no publicity with respect to either the action or the proposed statement until the statement is released by the executive committee.

Mr. Harrison then reported to the Committee that the regular weekly report of open market operations which is prepared at the Federal Reserve Bank of New York is sent to all members of the Federal Open Market Committee, to its Secretary, Mr. Morrill, to its Economist, Mr. Goldenweiser, to the Presidents of the Federal Reserve banks who are not members of the Committee, to the Secretary of the Treasury and to his Assistant, Mr. Daniel W. Bell, and to Mr. Sneed, Chief of the Division of Bank Operations of the Board of Governors; and that copies are also furnished to Mr. Rounds, who acts for Mr. Sproul in his absence in handling operations in the Government security market, and to Mr. Sanford, as Assistant Secretary of the Federal Reserve Bank of New York. Mr. Harrison said also that copies are being given to Mr. Matteson, Assistant Vice President, under Mr. Sproul, and should be given to Mr. Matteson's successor when Mr. Matteson ceases active service with the bank on June 30, 1939.

Upon motion duly made and seconded, the distribution of the weekly report described by Mr. Harrison was approved unanimously.

6/21/39

-10-

Thereupon the meeting adjourned at 1:05 p.m.

Chester Morris  
Secretary.

Approved:

W. S. ...  
Chairman.