

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, September 18, 1939, at 10:30 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Ransom
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper
Mr. Fleming
Mr. Leach
Mr. Martin
Mr. Hamilton

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Dreibalbis, 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

Messrs. Young, Sinclair, Parker, Schaller, Peyton, Gilbert and Day, Presidents of the Federal Reserve Banks of Boston, Philadelphia, Atlanta, Chicago, Minneapolis, Dallas, and San Francisco, respectively

Mr. Kimball, Secretary of the Presidents' Conference

Messrs. Goldenweiser and Williams discussed the credit and business situation. Copies of their statements have been placed in the files of the Federal Open Market Committee.

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At the end of Mr. Goldenweiser's statement Chairman Eccles joined the meeting.

At the request of Mr. Goldenweiser, Mr. Piser discussed the trend of prices and yields of Government securities as shown by a number of charts which he displayed during his discussion.

Mr. Sproul then presented a report which had been prepared at the Federal Reserve Bank of New York covering open market operations for the System account since the meeting of the Federal Open Market Committee on June 20-21, 1939, up to and including September 15, 1939. Mr. Sproul discussed the operations reflected by the report and stated that there were no transactions in the account on Saturday, September 16, 1939.

Following the presentation of the report Mr. Sproul explained briefly the instructions under which the bank was operating today and said that, while for the last two or three days the outside bids on the market had been higher than the bids of the New York bank in most issues, quotations on many issues had dropped today to the bids of the Reserve bank and that the bank had bought \$2,351,000 of bonds. The latest report, he said, was that the selling had dried up and that the market was in a static condition for the moment.

After a discussion of Mr. Sproul's report, Chairman Eccles suggested that each of the presidents report on the reaction in his district to developments in the Government securities market. The statements of the presidents indicated that in their opinion, while

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there had been some selling of Government securities on the part of smaller banks, there had been relatively little selling on the part of larger banks except for the account of customers and trust estates, that many banks and other institutions were ready to buy but were hesitant to go into the market just at this time, that the market was in a stronger position because of the decline in prices, that there was a feeling in some quarters that there is now beginning a period of higher interest rates, that, while banks had suffered a loss of appreciation in their Government security holdings, such loss might be substantially counteracted by increases in the amounts of and returns from their loans and other investments, that the System should not attempt to hold prices of securities at any particular level but should allow the market to seek its own level, that there was little likelihood of panic selling at present prices, and that the System had done a good job in the way in which it had handled the market. It was stated, however, that there had been some criticism of the practice of requiring names of large sellers of securities and of the action taken by the Federal Reserve Bank of New York in getting dealers to close at 4:00 o'clock. In this connection Mr. Harrison and Mr. Sproul discussed in detail the reasons for the adoption of the practice for a short period of requiring the names of sellers in connection with certain types of offerings to the Federal Reserve bank, pointing out that such requirements are no longer made. They also explained the situation as to the hour of closing, pointing out the desirability of

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having a uniform time for discontinuing operations in the over-the-counter market. It appeared from the statements of the presidents that no Federal Reserve bank had made an advance to a bank on Government obligations under the policy recently announced by the Board, and it was the consensus that, while there had been some selling on the part of banks throughout the country as a whole, the total sales by all holders were not large in view of the disturbed conditions to which the market had been subject.

After a further general discussion a recess was taken and the meeting was reconvened at 2:30 p.m. with the same attendance as at the morning session.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on June 20-21, 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 meeting of the executive committee on June 20-21, 1939, were approved, ratified, and confirmed.

It was stated that on September 8, 1939, it was decided by the members of the executive committee, with the approval of the members of the Board of Governors who were not members of the executive committee, to ask the other members of the full Committee (Messrs. Fleming, Martin, and Hamilton) for their concurrence in granting authority to increase the System open market account by a second

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\$500,000,000 as provided in the last resolution adopted at the meeting of the Federal Open Market Committee on June 21, 1939, and that the granting of such authority was approved by Messrs. Fleming, Martin and Hamilton on September 9, 1939.

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

Upon motion duly made and seconded, and by unanimous vote, the transactions for the System open market account, including the purchases of obligations guaranteed by the United States Government, during the period since that covered by similar action at the meeting of the Federal Open Market Committee on June 20, 1939, to and including September 16, 1939, were approved, ratified, and confirmed.

There ensued a discussion of the questions of policy with respect to the authority to be granted to the executive committee to arrange for transactions in the System open market account. Consideration was given in this connection to a revision of the resolutions adopted by the Federal Open Market Committee at its last meeting and to the question whether the authority granted to the committee to increase or decrease the System account for the purpose of exercising an influence toward the maintenance of orderly market conditions should be so worded as to authorize the executive committee to increase the account by a stated amount irrespective of the bills which might be allowed to run off or whether the authority should be for

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the purchase or sale of a stated amount of securities without regard to the amounts of Treasury bills that might be allowed to mature without replacement.

Chairman Eccles stated that the principal question that had been discussed by the members of the executive committee during the recent period was the rapidity with which the market should be allowed to decline, the amounts of securities that should be purchased for the System account during declines, and the timing of such purchases. He stated his position that in view of the existing large amounts of excess reserves he would rather have remained out of the market entirely than to have been in and permitted the market to decline too rapidly, that he felt that the System should increase its resistance as the market declined, that, since a substantial decline had taken place and Government securities were getting close to their issuing prices the Committee should take either the position that it had discharged its responsibility and that the market should stand on its own feet or the position that, if it was going to be in the market at all, it was more important now than when the market was very much higher that the market show no substantial declines, that he did not think it would take much buying to give the market stability, that in view of that situation it would be a mistake to let the market go through par without considerable resistance on the part of the System, and that he would favor a policy of resistance.

Mr. Harrison stated that the Secretary of the Treasury on

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September 12, 1939, advised the members of the executive committee that he thought that if there were any criticism of the System's operations it was that it had given the market too vigorous support and that it was the feeling in the Treasury that the System should let the market go down towards a natural level more quickly and with less expenditure of funds for the reasons (1) that the Treasury might be interested in going into the market to do some financing but it did not want to do so until the market was a more natural one and (2) that private financing had been delayed because of the desire of issuers to wait until the market had found what they deemed to be a more natural level. Mr. Harrison felt that in these circumstances it might be preferable to select a course between the two extremes suggested by Chairman Eccles, that is, to let the System get out of the market entirely but to be prepared, as in the past, to attempt to avoid disorder in the market by placing bids under particular issues, whenever it appeared that there was heavy pressure on those issues without any outside bids. Under this procedure, he said, bids would be placed up to, say, \$250,000 on any particular issue and some bonds would be taken if necessary to avoid having them drive the market down. If conditions showed that the market had not found its own level, he said, it should be followed down with purchases only to maintain orderly conditions.

The question of the policy to be adopted for the future was discussed at length and particularly the questions whether the

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Committee should give vigorous support to the market at this point, whether, if the market had not found a level where it would be independent of Federal Reserve buying, the Committee should permit it to decline slowly, taking a substantial amount of bonds on the decline, or rapidly, taking only a few bonds, or whether, if the market should break through the present levels with substantial selling, a strong stand should be taken by the System at some point in order to dry up offerings. Consideration was also given to the desire of the Treasury to have a reasonable period of stability in the market and of freedom from official support before announcing any new financing.

Mr. Ransom referred to the close attention which the executive committee had given to the market during the preceding three weeks and suggested that, if possible while the whole Committee was in Washington, some more definite formula be worked out than had existed heretofore in order that the executive committee might not be under the necessity of giving the matter the constant attention that had been required during the recent period. Mr. Ransom's suggestion was discussed at some length but it was stated by a majority of the members that they felt that because of the unusual conditions under which the System account was being operated anything more than a very general statement of objective was not possible at this time.

The opinion was expressed, however, that it should not be the purpose of the Committee to "peg" or maintain the market at any predetermined level.

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In response to a request from Chairman Eccles that the presidents who were not on the executive committee of the Federal Open Market Committee express their views with respect to the problem before the Committee, a number of them discussed the matter.

Mr. Young said that he would let the market seek its own level and if that appeared to be two or three points lower he would let it go that far before putting in orders, that if it did not hold its own at that point he would let it continue as far as another three points before he would give it strong support, and that he would not be concerned with the speed with which it was allowed to drop.

Mr. Day said he would not like to see a precipitous drop and if the market went down he would want to ease it down in order not to create the impression that there was no support and to prevent it from breaking away.

Mr. Gilbert did not favor complete withdrawal from the market. He did not see any reason for varying the program that had been followed. He said that the extent to which the market should be supported would depend on developments and that he thought the procedure that had been followed up to date had worked well.

Mr. Martin stated that he would not hesitate to spend enough to keep the market from going down too fast and that in his opinion such action would have the effect of stabilizing the market and bringing in buyers.

Mr. Peyton said he did not see any great variance in the points

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of view that had been expressed, that no one was suggesting withdrawal from the market altogether, that it was a matter of practical operation from day to day, that there was a point at which the market should be bolstered, and that he doubted that that point had been reached. He also said that psychology plays an important part in the market and that the prices of securities are determined by many outside factors including the influence of the views of financial writers and bankers and others that give free advice.

Mr. Sinclair was inclined to stay away from the market a little and see if the buyers would come in. He would be prepared in case of any sudden fluctuations to cushion the market a little but not as aggressively as had been done. He said that in view of the war situation he would not be in a hurry to do a lot of buying for the reason that he felt that buying was going to do more to frighten buyers away than to encourage them to come in, that he believed the market was going to a lower level, and that if we did not find buyers then he would be prepared to do some buying but that in the meantime he would mark time and see what happened.

Mr. Fleming felt that the market would decline if the Neutrality Act were repealed and that a statement of general principles could be drawn. When there are substantial offerings and no purchasers the System should be prepared to buy. The Committee should not deem it its function to maintain any particular level of yields or prices. The Committee should endeavor to prevent violent fluctuations in the course

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of a trading day, up or down. As to what those fluctuations should be he was not prepared to say. He would leave the job to the executive committee.

Mr. Hamilton stated that the general impression prevailed throughout the country that the System and the Treasury would not permit Government securities to go through par and that was one reason the market had leveled off as it began to get close to par. He also said that he would watch the market closely and if it went off a point or more he would get in the market and if it went below par he would get in pretty strongly because he thought that is what the public expected. He felt, however, that it would not be necessary to go in very strongly to maintain prices around par.

Mr. Parker was of the opinion that it was too soon after September 1 to formulate a long range program as we had not yet passed through the crisis and that for a period at least the executive committee should pursue the same policy that it had pursued up to the present time and cushion the market so that if there were any further drop it would be a steady one and not bring about a wave of selling. He felt that if there were any substantial amount of bonds being offered for which no adequate market could be found that condition might start a wave of selling that could not be stopped without buying a considerable volume of securities, that there seemed to be no other practical course at present than that of easing the market down and buying on a substantial scale, and that an impression that the Committee was

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not going to support the market might produce a feeling of uncertainty that would deter buying.

Chairman Eccles stated that as he got the general view of the presidents it was one of approval of the action of the executive committee up to date, broadly speaking, and that the fact that the System had purchased about \$450,000,000 of securities up to this time in cushioning the market was not considered by the majority of those present to have been excessive.

Consideration was given to the resolution containing authority to the executive committee to effect transactions in the System open market account and a draft of a revised resolution which had been prepared during the discussion was read, as follows:

That the executive committee be directed until otherwise directed by the Federal Open Market Committee to arrange for such transactions for the System open market account (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement) as in its judgment from time to time may be necessary for the purpose of exercising an influence toward maintaining orderly market conditions; provided that the aggregate amount of securities held in the account at the close of this date shall not be increased nor decreased by more than \$500,000,000.

Mr. Leach raised the question whether the above resolution would be interpreted as a mandate to the executive committee to spend \$500,000,000 or anything like that amount. It was unanimously agreed that the resolution should not be so interpreted and that the amount spent and the rapidity with which it was spent would depend on circumstances as they developed.

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At the conclusion of the discussion, upon motion duly made and seconded, the resolution set forth above was adopted by unanimous vote.

Reference was then made to the report of examination of the System open market account as of the close of business on June 17, 1939, which was submitted by Federal Reserve Examiner Koppang under date of September 7, 1939, in accordance with the request made by the Federal Open Market Committee at its last meeting. A copy of the report had been sent to each member of the Federal Open Market Committee by Mr. Morrill on September 11, 1939. Reference was made to the last paragraph of the report which called attention to the fact that, while the designation of Mr. Sproul as Manager of the System Open Market Account had been approved by the Federal Open Market Committee, approval did not appear to have been obtained for the designation of Mr. Rounds as alternate for Mr. Sproul.

At the conclusion of a discussion during which the opinion was expressed that there was no necessity for the approval of the appointment of an alternate for Mr. Sproul, it was voted unanimously to accept and file the report without further action.

Chairman Eccles stated that a question had been raised as to the procedure and the time for making an announcement of the decision reached by the Board and the Federal Reserve banks that the recently announced policy with respect to advances by Federal Reserve banks to member and nonmember banks on the security of Government obligations

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includes Federal Home Loan Banks, Federal Intermediate Credit Banks, Federal Land Banks and Banks for Cooperatives and suggested that this matter be discussed at this time. In this connection he stated that an inquiry had been received from the Financial Adviser of the Federal Home Loan Bank Board as to the application of the policy to Federal Home Loan Banks and that the Board was under necessity of making some reply to that communication. During the discussion some of the presidents stated that they had already advised some of the banks in question in their districts that the policy applied to them. Chairman Eccles reviewed again the reasons for the application of the policy to the Governmental banking institutions. It was suggested that the Board reply to the letter received from the Federal Home Loan Bank Board by stating in effect that the term nonmember bank as used in the Board's announcement includes Federal Home Loan Banks, with the understanding that, if inquiries are received as to other institutions of the classes mentioned, replies would be made in a similar manner, and that if inquiry be made by them at the Federal Reserve banks they would be advised that the policy applied to them.

At the conclusion of the discussion the members of the Board of Governors agreed that the matter should be handled in accordance with the foregoing suggestions.

Chairman Eccles reported that it was the intention of the executive committee to let this week's maturities of Treasury bills run off without replacement.

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Thereupon the meeting adjourned.

Robert M. Morie
Secretary.

Approved:

W. S. Coates
Chairman.