

TWENTY-FIFTH ANNUAL REPORT

OF THE

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS
FOR THE YEAR 1938



UNITED STATES OF AMERICA
WASHINGTON: 1939

RECORD OF POLICY ACTIONS—FEDERAL OPEN MARKET COMMITTEE

MEETING ON MARCH 1, 1938

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

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

By unanimous vote, the Committee instructed the executive committee, until otherwise instructed by the Federal Open Market 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.

The Committee also voted unanimously to authorize the executive committee upon written, telephonic, or telegraphic approval of a majority of the members of the Federal Open Market 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 was found to be unnecessary for the purpose of this action. It was understood, however, that the executive committee was not authorized to increase or decrease by more than \$300,000,000 the amount of securities held in the system open market account.

In the opinion of the Committee the existing amount of excess reserves of member banks was not too large in view of the low volume of business activity, declining prices, and business uncertainty and, therefore, no useful purpose would be achieved at this time by reducing the amount of the securities held by the System. It was agreed, however, that provision should be made for prompt action in purchasing securities, when approved by a majority of the Committee for the purpose of 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 that similar provision should be made

for the sale of securities to the extent that their retention would be unnecessary for this purpose. It was agreed also that the existing authority of the executive committee to replace maturing securities and to make shifts of securities in the account should be continued in order to enable the executive committee to meet changing market conditions and to improve the distribution of maturities in the account.

MEETING ON APRIL 22, 1938

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Draper, Mr. Sinclair, Mr. Newton, Mr. Schaller, Mr. Peyton.

Authority to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account.

The following resolution was presented by Mr. Harrison, who moved its adoption:

"In view of the fact that the present and prospective amounts of excess reserves of member banks are tending to make it more difficult for the System, by means of shifts in the maturities in the open market account, to exercise its influence towards orderliness in the Government securities market

VOTED that, until otherwise authorized or directed by the Committee, and in addition to the authority to make shifts in the maturities in the system open market account, the executive committee be authorized to permit fluctuations in the total amount of the account in order more effectively, with the means available and in the light of current conditions, to exert its influence towards orderly conditions in the Government bond market, provided, however, that the account shall not be increased or decreased by more than \$200,000,000 from the present level of the account."

The presentation of the foregoing resolution followed a detailed discussion of developments in connection with the recently announced Government program for the encouragement of business recovery, including the release of gold held in the inactive gold account of the Treasury, the reduction made by the Board of Governors of the Federal Reserve System as of April 16, 1938, in reserve requirements of member banks, and a reduction in the amounts of current weekly offerings by the Treasury of Treasury bills for sale in the market. Mr. Harrison presented his resolution on the ground that in all the circumstances the executive committee should have authority to permit some flexibility in the system open market account by allowing some reduction in the amount of the account if that should seem desirable as a factor in restraining a disorderly rise in the market just as in the past, by purchases of securities, it had exerted its influence toward maintaining an orderly market on a decline. In his opinion, some reasonable reduction in the account at such a time should not be interpreted as a reversal of the policy of the Government with respect to excess reserves and probably would serve to make the market less vulnerable in the future.

As a substitute for Mr. Harrison's resolution, a motion was made and carried unanimously that the executive committee be instructed to direct the replacement of