

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

the next maturing Treasury bills in the system open market account with Treasury bills or notes having maturities not to exceed two years, provided that such securities could be purchased without paying a premium above a no-yield basis, with the understanding that another meeting of the Federal Open Market Committee would be held next week.

Thereupon, by unanimous vote, the Committee instructed the executive committee, until otherwise instructed by the Committee and subject to the limitations contained in the motion previously adopted on this date with respect to the next maturing Treasury bills in the account, 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 foregoing actions were taken by the Committee on the ground that the question of general policy to be followed by the Committee required further study in the light of actual developments during an interval before another meeting of the Committee, which it was agreed should be held the following week and, therefore, that during such interval there should be no change in the size of the system account except to the extent that it might prove to be impossible to replace maturing securities without paying a premium over a no-yield basis for replacement securities maturing within two years.

MEETING ON APRIL 29, 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. Peyton, Mr. Martin (alternate for Mr. Schaller).

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

It was moved that the following resolutions be adopted:

"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 maturing within two years 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 \$850,000,000.

"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 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 \$125,000,000, 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 \$850,000,000."

Mr. Harrison moved as a substitute for the above motion that the following resolution be adopted:

"That until otherwise authorized or directed by the Federal Open Market Committee the executive committee be authorized (a) to make such shifts in maturities in the system open market account as may be necessary in the proper administration of the account, and (b) 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 toward maintaining orderly conditions in the market, provided (1) that the amount of securities in the account maturing within two years be maintained at not less than \$1,000,000,000, (2) 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 \$850,000,000, and (3) that the total amount of the account be not increased or decreased by more than \$200,000,000 from the present level of the account."

The substitute motion was put by the Chair and lost, the members voting as follows: "aye," Messrs. Harrison, McKee and Sinclair; "no," Messrs. Eccles, Szymczak, Ransom, Davis, Draper, Newton, Peyton and Martin.

The original motion was put by the Chair and carried unanimously.

Mr. Harrison's substitute resolution was offered on the ground that it might become increasingly difficult for the system to exercise an influence toward orderly conditions in the market by means of shifts in maturities in the account; that further replacement of maturing securities with short maturities might accentuate the existing abnormalities in short and long term rates; that an effort to exert an influence toward orderly market conditions at this time was important if we were to avoid a too rapid or extensive rise in bond prices which might make the market vulnerable to later reactions; that a reduction in the account at this time, especially if it resulted merely from a failure to replace maturities and if effected for the purpose of exercising the

system's influence toward the maintenance of orderly market conditions, should not be interpreted as in conflict with or as counteracting the Government's recent program to increase excess reserves; and that in order to meet its responsibility more effectively under prevailing conditions the executive committee should have authority to sell securities or allow maturities to run off without replacement.

The majority voted against the substitute motion on the ground that a reduction in the system account would effect a corresponding reduction of excess reserves of member banks from the amount that would exist otherwise; that such action at this time would be regarded as inconsistent with the Government's announced program and particularly with the action of the Board of Governors in reducing reserve requirements; and that such action should not be taken unless there were developments subsequent to this meeting which would require a reconsideration of the general policy, in which event another meeting of the Committee should be called.

The unanimous action of the full Committee on the original motion was taken in the light of the position of the majority on the substitute resolution, it being agreed that in these circumstances the executive committee should have the usual authority to replace maturing securities and to make shifts of securities in the account subject to the limitation that maturing Treasury bills should be replaced only with Treasury bills or notes maturing within two years to the extent that they could be purchased without paying a premium over a no-yield basis; and that in order to meet unforeseen conditions that might arise in the interval before another meeting of the full Committee could be convened, the executive committee should be in position to act promptly with approval of a majority of the full Committee to increase or decrease the system account as circumstances might warrant.

MEETING ON AUGUST 2, 1933

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Draper, Mr. Sinclair, Mr. Schaller, Mr. Newton, 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 the System Open Market Account.

Upon motion duly made and seconded, and by unanimous vote, the following resolutions were adopted:

"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 \$850,000,000.

"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 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 \$125,000,000, 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 \$850,000,000."

The members of the Committee agreed that the resolutions containing instructions to the executive committee which were adopted at the previous meeting of the full Committee should be renewed and for the same reasons, but that the new resolutions should contain a modification with respect to the replacement of maturing Treasury bills. In June, 1938, considerable difficulty was experienced in replacing maturing bills with Treasury obligations maturing within two years (as required by the authority granted at the meeting of the Federal Open Market Committee on April 29) without paying a premium over a no-yield basis for the new securities and it appeared that further replacements with Treasury bills and notes within the two-year limitation would be extremely difficult if not impossible without paying such a premium for the replacement securities. In these circumstances the members of the Federal Open Market Committee (except Mr. Davis who was absent), on July 1, 1938, agreed to waive, until otherwise directed by the Committee, the requirement contained in the first resolution adopted at the meeting of the Committee on April 29 that Government securities purchased in replacement of maturing Treasury bills have maturities within two years and this action was ratified by unanimous vote at the meeting of the Committee on August 2. As it was thought that there might be a continuation of the difficulties in obtaining replacement securities with maturities up to two years without paying a premium over a no-yield basis the Committee decided that the resolution adopted at this meeting authorizing replacement of maturing securities should provide that maturing bills be replaced with bills and notes without limitation as to maturity, but only to the extent that they could be obtained without paying a premium over a no-yield basis.

MEETING ON SEPTEMBER 21, 1933

Members present: 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 the System Open Market Account.

Upon motion duly made and seconded, the following resolutions were adopted by unanimous vote: