

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

"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 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."

The resolutions were adopted for the reasons which prompted the Committee in adopting the resolutions containing the existing instructions to the executive committee. However, it was felt that 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 full Committee should be enlarged for the reason that, while it appeared that the immediate possibility of war in Europe had diminished, there was considerable uncertainty in the situation which might result in the necessity for emergency action before another meeting of the full Committee could be held. In view of these circumstances, the limit placed in the second resolution upon such action was increased to \$200,000,000. For the same reason the maximum limit on the amount of bonds in the account having maturities over five years was increased to \$900,000,000 in both the first and second resolutions.

MEETING ON DECEMBER 30, 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. Peyton, Mr. Leach (alternate for Mr. Newton).

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.

Upon motion duly made and seconded, the following resolutions were adopted, Messrs. Harrison, Szymczak, McKee,

Davis, Sinclair, Schaller, Peyton and Leach voting "aye" and Messrs. Eccles, Ransom and Draper voting "no."

"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, to allow such bills to mature without replacement or pending subsequent replacement (a) when market conditions are such as to make it impossible to procure other bills or notes without paying a premium over a no-yield basis, or (b) when such notes are not obtainable without undue disturbance to the market; (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 proper administration of the account; provided, (a) that the amount of securities in the account maturing within two years be maintained at not less than \$1,000,000,000; (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 \$900,000,000; and (c) that, if Treasury bills in the account are allowed to mature without replacement, the total amount of securities in the account be not decreased by more than \$200,000,000.

"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 including such decreases as may result from allowing Treasury bills in the account to mature without replacement, 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."

This action was taken in continuation of the existing policy of the Committee, the reasons for which have been stated in connection with resolutions adopted at previous meetings. In adopting this resolution, however, certain changes were made in the provisions bearing upon the replacement of maturing Treasury bills held in the System account, for reasons which are set forth in the following press statement, which was approved by the Committee following the adoption of the resolution:

"The Federal Open Market Committee announced, following a meeting today, that weekly statements of the total holdings in the Federal Reserve System's Open Market Account may at times show some fluctuation depending upon conditions in the market affecting the Committee's ability to replace maturing Treasury bills

held in its portfolio. The volume of Treasury bills available on the market has declined materially during the year and, owing to the large and increasing demand, such bills are already selling either on a no-yield basis or at a premium above a no-yield basis. It has, therefore, become difficult and in some weeks impossible for the System to find sufficient bills on the market to replace those that mature. Short-term notes are also selling on a no-yield basis and longer-term notes have at times been difficult to obtain. In these circumstances, it may be necessary from time to time to permit bills held in the portfolio to mature without replacement, not because of any change in Federal Reserve policy but solely because of the technical situation in the market. Because no change in Federal Reserve policy is contemplated at this time, maturing bills will be replaced to the extent that market conditions warrant."

On this statement Mr. Ransom requested that he be recorded as not voting, in view of his vote against the resolution in the form in which it was adopted by the Committee. It having been necessary for Mr. Draper to leave the meeting before the action was taken, he advised the Committee's Secretary later that he desired to be recorded as approving the press statement in view of the action of the Committee on the resolution. All the other members of the Committee voted in favor of the statement.