
Twenty-Sixth

ANNUAL REPORT

of the

BOARD OF GOVERNORS *of the*

FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1939

2. 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, Messrs. Eccles, Harrison, McKee, Ransom, Davis, Fleming, Leach, Martin and Hamilton voting "aye" and Mr. 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 \$1,000,000,000; 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 \$1,000,000,000."

These resolutions were adopted for the purpose of continuing similar authority granted at the three previous meetings of the Committee and for substantially the same reasons. The change from \$900,000,000 to \$1,000,000,000 in the maximum amount of bonds having maturities in excess of five years which might be held in the System account was in recognition of the possibility that a substantial increase in the holdings of bonds might result from disturbed market conditions.

3. Authority to Increase the Amount of Securities in the System Account in the Event of Armed Conflict or Political Developments Threatening Armed Conflict Abroad.

Upon motion duly made and seconded, and by unanimous vote, the following resolution was adopted:

"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 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 reasons for this action are stated above in connection with the ratification of the previous action of the members of the Federal Open Market Committee in authorizing the executive committee to increase the System account in the event of the outbreak of hostilities abroad.

MEETING ON JUNE 21, 1939

Members 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.

Authority (1) to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account, (2) to Purchase or Sell Securities from the System Open Market Account, and (3) to Increase or Decrease the Account in the Event of Armed Conflict or Political Developments Threatening Armed Conflict Abroad.

Upon motion duly made and seconded, the following resolutions were adopted, Messrs. Eccles, Harrison, Szymczak, McKee, Ransom, Davis, Fleming, Leach, Martin, and Hamilton voting "aye" and Mr. Draper voting "no," he being opposed to authorizing the executive committee to allow bills to run off without replacement but otherwise favoring 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 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."

With the exception of a change with respect to allowing bills to run off without replacement these resolutions were in the same form as the resolutions adopted at the previous meeting of the Committee and were adopted for substantially the same reasons. The change in the first two resolutions with respect to allowing Treasury bills to run off without replacement was made for the reasons set forth in the following statement for the press which was approved at this meeting for publication when the first reduction was made in the amount of Treasury bills held in the account pursuant to the first resolution:

"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 \$¹ in the System Open Market Account. This

¹ Subsequently, on June 29, 1939, the above statement was released to the press, showing a decline of \$13,373,000.

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."

On the question of the approval of the statement Messrs. Eccles, Harrison, Szymczak, McKee, Ransom, Davis, Fleming, Leach, Martin and Hamilton voted "aye" and Mr. Draper voted "no."

MEETING ON SEPTEMBER 13, 1939

Members 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.

1. Authority to Increase the Amount of Securities in the System Open Market Account for the Purpose of Exercising an Influence Toward the Maintenance of Orderly Market Conditions.

On September 9, 1939, in accordance with the provisions of the third resolution adopted at the meeting on June 21, 1939, and at the request of the members of the executive committee, the members of the Federal Open Market Committee approved an increase of \$500,000,000 in the authority of the executive committee to purchase securities for the System open market account.

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 above was approved, ratified and confirmed.

The outbreak of armed conflict in Europe had resulted in serious disturbances in our markets and at the close of business on September 8 the System had purchased \$317,000,000 of the \$500,000,000 of purchases authorized at the meeting on June 21, 1939, for the purpose of exercising an influence toward the maintenance of orderly conditions in the Government securities market. The above action was taken to place the executive committee in a position to continue to make purchases of securities for the same purpose within the limit set.

2. Authority to Effect Transactions in the System Open Market Account.

Upon motion duly made and seconded, the following resolution was adopted by unanimous vote:

"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."