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 Friday, April 29, 1938, at 10:40 a.m.

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)

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Burgess, Manager of the System Open Market Account
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors of the Federal Reserve System
Mr. Thomas, Assistant Director of the Division of Research and Statistics of the Board of Governors
Mr. Piser, Senior Economist in the Division of Research and Statistics of the Board of Governors

Mr. Burgess submitted copies of a report prepared by the Federal Reserve Bank of New York for this meeting, covering operations in the system open market account for the period from April 17 to 27, 1938, inclusive, and reviewed briefly the transactions covered by the report. In connection with the report there was a discussion of the relatively large volume of bills held in the account which mature during the next two months and of the possible future trend of yields on Government securities.

Upon motion duly made and seconded, and by unanimous vote, the transactions in the system open market account for the period from April 22, to April 28, 1938, inclusive, were approved, ratified and confirmed.

Chairman Eccles stated that, in accordance with the understanding at the meeting of the Federal Open Market Committee on April 21 and 22, he and Mr. Davis had a further discussion with the Secretary of the Treasury on Tuesday, April 26, of the problems which were before the Federal Open Market Committee as a result of the action of the Treasury in discontinuing the inactive gold account and of the Board of Governors in reducing reserve requirements and particularly the problem created by the proposed retirement by the Treasury of a portion of the maturing Treasury bills. Chairman Eccles said that the Secretary had a very clear understanding of the difficulties faced by the Committee and had stated that he desired to cooperate with the Committee in every way as he realized that its problem was very closely related to his own. Chairman Eccles said that the Secretary had indicated that he was in agreement with the position that the system open market account should not be reduced as long as it is possible to purchase replacement securities without paying a premium over a no-yield basis, particularly since any reduction in the account might be regarded as a reversal of policy.

Chairman Eccles stated further that it was clear that, while the Administration understood fully the difficulties created by the retirement of maturing bills, it felt that it was essential that such action be taken as a means of completing its announced program and getting into the banks promptly as excess reserves the proceeds of the desterilized gold. The Secretary stated during the conference, Chairman Eccles said, that the Reconstruction Finance Corporation would very likely require additional funds in the near future with which to make loans under the authority recently granted to it and that, if it appeared desirable to do so, the Reconstruction Finance Corporation might offer within the next two weeks $500,000,000 of Reconstruction Finance Corporation debentures with possibly a five-year maturity, on a book credit basis, which would tend to reduce the demand for the shorter term Government securities.

There was further discussion of the question whether, in view of the intention of the Treasury to retire maturing bills, the Federal Reserve System had any responsibility with respect to the maintenance of orderly conditions in the Government securities market.

Chairman Eccles stated that, following the conference with the Secretary of the Treasury and in preparing for this meeting, he had had drafted two resolutions which he desired to submit for consideration by the Committee in connection with its discussion of the authority to be granted to the executive committee to effect transactions in the system open market account.

The first draft of resolution read as follows:

"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."

The second resolution (with changes made during the discussion) read as follows:

"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."

In connection with the first resolution it was stated that the replacement of maturing bills with bills and notes maturing within two years to the extent that they could be purchased without paying a premium over a no-yield basis would not only tend to increase the price of all such securities up to two years to a no-yield basis, but would very likely result in higher prices for notes of all maturities.

Mr. Harrison said that he felt that the executive committee should be given authority to reduce the account within certain limitations, as suggested in the resolution offered by him at the last meeting of the Federal Open Market Committee. He pointed out that, following the recent decrease in reserve requirements of member banks, coupled with the desterilization of approximately $1,400,000,000 of gold, excess reserves of member banks already had been largely increased and would likely reach $3,800,000,000 before the end of the year, and that this increase had already resulted in a rapid and substantial rise in Government security prices. Looking ahead, he said, it might become increasingly difficult for the System, by means of shifts in maturities in its account, to exercise an influence toward orderly conditions in the market; many of the shorter maturities were selling on a no-yield basis; and further shifts into such maturities or forced replacement of maturing securities with short maturities would accentuate the present abnormalities of both short and long term rates.

He also stated that, in his opinion, the Committee should continue to recognize its responsibility, when possible, to exercise its influence toward maintaining orderly conditions in the market, not only on the down-side but on the up-side as well; that the latter was important at this time if we were to avoid a too rapid or extensive rise in bond prices which might make the market more vulnerable to later reactions; and that, to meet this responsibility most effectively under conditions such as exist now, the Committee should have authority to reduce the account, either by sales of securities or by allowing maturities to run off without replacement. He added that a reduction in the account at this time, especially if it resulted merely from a failure to replace maturities, would probably run little of the risk previously feared that a decrease in the account might precipitate disorderly liquidation by banks, and that a reduction now, effected for the purpose of exercising the System's influence toward the maintenance of orderly market conditions, could not fairly be interpreted as in conflict with or as counteracting the Government's recent program to increase excess reserves, as the amounts involved would be relatively too small as compared with the total amount of excess reserves now outstanding to warrant such an interpretation.

Chairman Eccles expressed the opinion that any action to reduce the account so long as replacements could be purchased without paying a premium over a no-yield basis would be interpreted as inconsistent with the Government's program. He stated that, as a member of the executive committee, he would not want the executive committee to take the responsibility of reducing the account, and that, while he would be willing to vote for the second resolution, he felt that if conditions arose which called for a reduction in the account another meeting of the full Committee should be called.

There was a discussion of what action the executive committee would be expected to take under clause (1) of the first resolution and Chairman Eccles stated that it was intended to instruct the executive committee to replace maturing bills so long as such replacements could be made by the purchase of bills or notes, with maturities not to exceed two years without paying a premium over a no-yield basis and that, to the extent that such replacements could not be made, maturities would be allowed to run off without replacement. The discussion also made clear that the authority proposed in the second resolution, if given, would be construed to be independent of any authority or action under the first resolution.

Further consideration was given to the possibility of acquiring for the system account securities, other than direct obligations of the Government, that are eligible for purchase by the Federal reserve banks, and it was stated that, since these securities were available only from time to time in small blocks, substantial purchases thereof would be difficult to make and might substantially increase prices, and that, therefore, such purchases would not be desirable from a market standpoint. It was also stated that, in view of the large volume of maturities in the system account during the next two months, it was quite possible that unless replacements were made with notes running as high as five years it might be necessary to allow a substantial amount of securities in the account to mature without replacement.

At the conclusion of the discussion Mr. Newton moved that the two resolutions set forth above be adopted. Mr. Newton's motion was duly seconded.

Mr. Harrison moved as a substitute for Mr. Newton's motion that the following resolution be adopted for the reasons which he had outlined earlier in this meeting:

"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."

Mr. Harrison's motion, having been duly seconded, was put by the chair and lost, the members voting as follows:

"Aye"	"No"
Mr. Harrison	Mr. Eccles
Mr. McKee	Mr. Szymczak
Mr. Sinclair	Mr. Ransom
	Mr. Davis
	Mr. Draper
	Mr. Newton
	Mr. Peyton
	Mr. Martin

Mr. Newton's original motion was put by the chair and carried unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.