

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 Wednesday, December 13, 1939, at 10:30 a.m.

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

Mr. Morrill, Secretary
Mr. Carpenter, Assistant Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Sprout, Manager of the System Open Market Account
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors

Messrs. Young, Sinclair, Parker, Schaller, Peyton, Gilbert and Day, Presidents of the Federal Reserve Banks of Boston, Philadelphia, Atlanta, Chicago, Minneapolis, Dallas and San Francisco, respectively

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on September 18, 1939, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee of the Federal Open Market Committee as set forth in the minutes of the meetings of the executive committee on September 18-19 and November 6, 1939, were approved, ratified and confirmed.

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Reference was made to the action of the board of directors of the Federal Reserve Bank of New York on November 9, 1939, in appointing Robert G. Rouse, a Vice President of the bank, to succeed Mr. Sproul as Manager of the System Open Market Account subject to his appointment being satisfactory to the Federal Open Market Committee.

Mr. Harrison moved that the Committee approve the selection of Mr. Rouse as Manager of the System account.

Mr. Harrison's motion, having been duly seconded, was put by the chair and carried unanimously.

The report of open market operations since the last meeting of the Committee, which had been prepared at the Federal Reserve Bank of New York, was reviewed by Mr. Sproul at the meeting of the executive committee, at which all members of the Federal Open Market Committee were present, just before this meeting, and for that reason was not discussed at this time.

Upon motion duly made and seconded, and by unanimous vote, the transactions for the System open market account during the period since that covered by similar action at the meeting of the Federal Open Market Committee on September 18, 1939, to and including December 12, 1939, were approved, ratified and confirmed.

Under date of November 29, 1939, there was sent to each member of the Federal Open Market Committee a copy of a resolution adopted by the Federal Advisory Council at its meeting on November 20, 1939,

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recommending that the volume of sales from the System open market account be promptly expanded in an orderly manner.

The recommendation was discussed and Mr. Harrison moved that it be received and placed on file and that the Secretary address a letter to the Secretary of the Federal Advisory Council stating that the resolution had been presented at a meeting of the Federal Open Market Committee and would be given consideration in the determination of the policy to be followed in connection with transactions in the System open market account.

Mr. Harrison's motion, having been duly seconded, was put by the chair and carried unanimously.

Mr. Goldenweiser discussed the present business situation and reviewed some of the problems with respect to System open market policy which were created by the large gold imports during recent years. A copy of Mr. Goldenweiser's statement has been placed in the files of the Federal Open Market Committee.

After a discussion of some of the points covered in Mr. Goldenweiser's statement and their relation to the open market policy of the System, Mr. Harrison stated that there appeared to be no reason for a change in the existing authority of the executive committee to effect transactions in the System open market account and that it would be his recommendation that the resolution adopted at the last meeting of the Federal Open Market Committee be renewed.

Chairman Eccles said that, while he was in agreement with the suggestion that the existing authority of the executive committee

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be renewed, he desired to make a statement with respect to his conception of the present open market policy so that if there were any questions as to the action to be taken under the resolution granting authority to the executive committee they could be discussed at this time. Chairman Eccles then made a statement substantially as follows:

Open market operations during recent months were not directed toward changing or influencing money rates. The large volume of excess reserves has removed the System so far from contact with the money market that the System's purchases and sales of securities have had little effect on the market and practically no effect on the aggregate volume of available funds. In these circumstances, transactions for the System open market account should continue to be in the direction of maintaining stability in the Government securities market, which in turn reflects itself in the entire capital market.

This does not mean that we should sell for the purpose of preventing interest rates from going down nor does it mean that we should purchase securities in order to hold interest rates at any particular level. It does mean, however, that if there were substantial fluctuations which were the result of a small amount of buying at a time when there was no selling in the market or vice versa or which were the result of other conditions which did not reflect fundamental market trends the System might go into the market and attempt to exercise an influence toward stability of the market by

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counteracting such conditions. The System would buy or sell on a sliding scale rather than at a fixed price so that the market would not rise too rapidly when there were few or no selling orders in the market and would not fall too rapidly when there was little or no buying interest present.

It is essential that the System use the open market portfolio in such manner as to make it as effective as possible and at the same time give consideration to the income requirements of the System. It should be recognized also that the System cannot and should not attempt to peg the market on either the up or down side, and that under present conditions, with excess reserves more than twice as large as the entire System portfolio, our responsibility is one of attempting to maintain orderly market conditions rather than of attempting to influence market rates.

Mr. Harrison said that, in his opinion, the Chairman's comments were an accurate statement of the present policy of the Federal Open Market Committee.

Thereupon Mr. Harrison moved that the following resolution be adopted:

"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."


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

Mr. McKee referred to the fact that the System open market account contained \$161,705,000 of March 15, 1940 Treasury notes, for which issue the Treasury is now offering to exchange 2-1/4% 12-14 year bonds and 1% 4-3/4 year notes. Mr. McKee suggested that the Committee consider the question of the amounts of the new securities that should be taken in exchange for the System's holdings of the old notes. The matter was considered in the light of desirable maturity distributions in the System open market account and it was the unanimous opinion that the System's holdings of the March 15, 1940, notes should be exchanged for \$100,000,000 of the new bonds and \$61,705,000 of the new notes.

Thereupon the meeting adjourned.


Secretary.

Approved:


Chairman.