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 Monday, March 15, 1937, at 10:40 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. Ransom
Mr. McKinney
Mr. Martin
Mr. Peyton (alternate for Mr. Day)

Mr. Morrill, Secretary
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Burgess, Manager of the System Open Market Account

It was stated that on Saturday, March 13, 1937, all of the members of the Committee were notified of the call for this meeting personally or by wire, that Mr. McKee advised the Chairman by telephone that he would be unable to attend, that Mr. Davis wired that he could not be present, and that President Day advised that he would be unable to attend but would arrange with his alternate, Mr. Peyton, to be present. Mr. Sinclair was confined to his home by illness and his alternate, Mr. Fleming, was absent on vacation.

Attention was directed to the fact that this was the first meeting of the Federal Open Market Committee after March 1, 1937, that certain changes had taken place among the members representing Federal reserve banks, and that the by-laws provided that at this meeting the Committee should elect a Chairman, Vice Chairman, Economist, one or more Associate Economists, General Counsel and Assistant General Counsel, and that it should select the members of its executive committee.

The Secretary reported that the following had been elected by the respective Federal reserve banks as members of the Federal Open Market Committee for a period of one year commencing March 1, 1937:

Mr. George L. Harrison, President of the Federal Reserve Bank of New York, with Mr. Roy A. Young, President of the Federal Reserve Bank of Boston, as alternate member;
Mr. John S. Sinclair, President of the Federal Reserve Bank of Philadelphia, with Mr. M. J. Fleming, President of the Federal Reserve Bank of Cleveland, as alternate member;
Mr. B. A. McKinney, President of the Federal Reserve Bank of Dallas, with Mr. Oscar Newton, President of the Federal Reserve Bank of Atlanta, as alternate member;
Mr. Wm. McC. Martin, President of the Federal Reserve Bank of St. Louis, with Mr. George J. Schaller, President of the Federal Reserve Bank of Chicago, as alternate member; and
Mr. Wm. A. Day, President of the Federal Reserve Bank of San Francisco, with Mr. J. N. Peyton, President of the Federal Reserve Bank of Minneapolis, as alternate member.

The Secretary reported that records of the election of each member and alternate representing the Federal reserve banks or certified copies thereof had been received by the Secretary of the Committee; that, with the exception of Mr. Day, each newly elected member and alternate had filed the required oath of office; and that it was the opinion of the Committee's counsel that the newly elected members and alternates present were qualified to participate in the meeting.

Upon motion duly made and seconded, the following officers of the Committee were reelected by unanimous votes to serve until the election of their successors at the first meeting after March 1, 1938:

Marriner S. Eccles, Chairman
George L. Harrison, Vice Chairman
E. A. Goldenweiser, Economist
John H. Williams, Associate Economist
Walter Wyatt, General Counsel
J. P. Dreibelbis, Assistant General Counsel

Upon motion duly made and seconded, and by unanimous vote, the Committee selected the Federal Reserve Bank of New York to execute transactions for the System open market account.

Mr. Harrison thereupon stated that he would recommend to the board of directors of the Federal Reserve Bank of New York the renewal of the selection of Mr. W. Randolph Burgess as Manager of the System Open Market Account.

Upon motion duly made and seconded, and by unanimous vote, the Committee approved the selection of Mr. Burgess as Manager of the System account in the event of the renewal of his selection by the Federal Reserve Bank of New York to act in that capacity.

Upon motion duly made and seconded, and by unanimous vote, the Committee selected as members of the executive committee, in addition to the Chairman of the Federal Open Market Committee, who under the provisions of the by-laws is also Chairman of the executive committee, Messrs. Broderick, McKee, Harrison and Sinclair; as alternates for the members of the Board of Governors who serve as members of the executive committee, Messrs. Ransom, Davis and Szymczak in the order named; and as alternates for the representative members of the executive committee, Messrs. Martin and McKinney in the order named.

The Secretary presented the minutes of the two meetings of the Federal Open Market Committee held on January 26, 1937, and, upon motion duly made and seconded, these minutes were approved unanimously.

The Secretary then presented the minutes of the two meetings of the executive committee of the Federal

Open Market Committee held on January 26, 1937, which had been approved at the meeting of the executive committee on March 13, 1937, and, upon motion duly made and seconded, and by unanimous vote, the actions set forth in these minutes were approved, ratified and confirmed.

The Chairman then called upon Mr. Burgess for his report, as Manager of the System open market account, of operations since the last meeting of the Federal Open Market Committee. Mr. Burgess referred to the regular weekly reports which he had made (including a report which he had submitted as of March 10, 1937) since the last meeting of the Federal Open Market Committee. He stated that there had been held in the System account about $88,000,000 of the 3% notes maturing on April 15 for which the Treasury had offered 2 1/2% 1949-53 bonds in exchange on March 15, and that, in order that the account might not be in the position of holding the entire amount until March 15, the maturity of the notes was largely anticipated by sales and purchases in the market, to the extent of approximately $55,000,000 in advance of March 15, leaving approximately $33,000,000 for exchange for the 2 1/2% bonds.

Mr. Burgess then reviewed the trends in the government security market during the preceding ten days. He reported that the market had been weak just preceding the Treasury offering on March 8, and this weakness continued after the offering was announced. No purchases of securities had been made for Treasury or System account until March 9 and 10, the second and third days of the three-day period that the exchange offering was open, when moderate purchases were made for Treasury account to take care of blocks of bonds which were causing some congestion in the market. Purchases were made for

Treasury account on these two days and the following day to aid towards preventing a disorderly market. On Friday, March 12, Mr. Burgess reported, the Secretary of the Treasury had asked if the System would resume the arrangement under which the Treasury and the System participated equally in purchases of bonds which had been in effect prior to an arrangement made about a month ago under which the Treasury would take all bonds purchased and the System would take all Treasury notes purchased. Mr. Burgess reported that, after consulting with the chairman and Mr. Harrison, he had indicated to the Secretary that the System would resume operations under the earlier arrangement, and on this basis approximately $32,000,000 of bonds were purchased on Friday and $7,000,000 on Saturday, to be divided equally between the Treasury and the Reserve System, and operations were continuing on this basis. He indicated that no operations had been necessary in the note market for the maintenance of orderly conditions.

Mr. Burgess reported that, including the effects of transactions already arranged, the System's holdings of bonds with maturities in excess of five years had been increased to $532,000,000. He also called attention to the fact that, as a result of action taken by the executive committee on March 13, the New York bank had authority to increase such bond holdings to $600,000,000 provided, however, that security holdings having maturities within two years, which at present totaled approximately $1,100,000,000, should not be reduced below $1,000,000,000. He pointed out that the total amount of securities in the System account had not been changed except temporarily between statement dates, and that all purchases would be covered by sales or maturities of Treasury bills this week and next.

> Upon motion duly made and seconded, and by unanimous vote, Mr. Burgess' report was accepted and the transactions covered by the reports submitted by Mr. Burgess since the period covered by similar action taken at the meeting of the Federal Open Market Committee on January 26, 1937, were approved, ratified and confirmed.

Chairman Eccles expressed the opinion that the recent market situation, as referred to by Mr. Burgess, was a readjustment brought about by a number of factors, that the Government securities market, particularly the longer term securities, had shown weakness in part for the reason that the public had begun to feel, even before the Board issued its recent announcement of a further increase in reserve requirements, that the market for corporate securities was out of line, that some issues had been overpriced during the recent period of extremely low interest rates, and that this weakness in the corporate securities had affected the Government securities market. He referred to the French financial situation, the British armament program and the demand for war materials from other countries, labor troubles and the building of inventories in anticipation of higher prices in this country, which had resulted in unjustified increases in commodity prices, and discussions with respect to the possibility of increased relief expenditures and reduction of social security taxes which might result in a continued unbalanced budget. He felt that this situation, together with some feeling on the part of the public that the Board was moving to stop price inflation which would result in firmer money conditions, would naturally result in the prices of long term securities seeking somewhat lower levels. He also said that it should be pointed out that the action of the Board in increasing reserve requirements did not constitute a reversal of its easy money policy, that the present trend toward price inflation should be met in another way and that, as suggested in a statement which he was issuing to the press today, the time for adoption of a restrictive money policy does not arise until there is full production and employment. It should also be made clear, Chairman Eccles said, that the market situation is not due to the action of the Board in increasing reserve requirements, that after the full increase in requirements takes effect there will be about $500,000,000 of excess reserves and there will still be ample funds available for legitimate business use, and that bank deposits are approximately $2,000,000,000 in excess of the total in 1929.

He then referred to the continued easy money policy of the System and the huge excess reserves which had been allowed to accumulate. He pointed out that after the Board was given authority in 1935 to increase reserve requirements and, in spite of the fact that it was immediately urged to exercise the power, it did not take such action until excess reserves had reached a total of approximately $3,500,000,000 when, by an increase in reserve requirements, it absorbed only $1,500,000,000, and that later, after $600,000,000 of additional gold had been imported, resulting in further increases of excess reserves, it had increased reserve requirements to the limit of its authority but in the belief that after the increase would become fully effective member banks would have sufficient excess reserves to insure the continuation of the System's easy money policy. He said that if the Board were subject to criticism for the course it had pursued it would be because it had not taken action sooner to stop the decline of interest rates to the extremely low level that they had been allowed to reach.

He stated that every important step taken by the Board in 1936 with respect to an increase in reserve requirements was discussed fully with the Secretary of the Treasury before action was taken and that the recent action effecting a further increase was reviewed with the Secretary of the Treasury and the President was advised of the proposed action before it was taken, that they interposed no objection at any time, and that the Secretary had expressed to the President his feeling of satisfaction with the Board's close cooperation with the Treasury, and had said only two days ago that he did not feel that any increase in interest rates that had taken place thus far had had any bad effects on business. It was pointed out in this connection that the present program of the Treasury of sterilizing gold imports to prevent their increasing excess reserves of member banks was inaugurated prior to the recent action of the Board with respect to a further increase in reserve requirements.

At this point Mr. Thurston joined the meeting.

In response to an inquiry as to the source of selling orders which had come into the market during the past week, Mr. Burgess said that they had been partly the result of dealers reducing their holdings of bonds acquired in connection with the March 15 financing and reflected partly the sale of bonds from all parts of the country, some coming from corporations which held April 15 note maturities which they did not wish to exchange for the bonds offered by the Treasury.

President Harrison expressed agreement with the general position taken by Chairman Eccles and stated that he did not agree with statements that action by the Board of Governors in increasing reserve requirements was principally responsible for the weakness in the Government bond market; that, while the increase might have had some psychological effect, there would have been anyway a gradual readjustment of the market, partly because of fear of price inflation. He expressed the opinion that the increase in reserve requirements was fully justified in order to put the System in position to exercise credit control through open market operations whenever such action appeared to be necessary. He also agreed that, while there was no need for the exercise of a policy of credit restraint at this time, he could not agree with the suggestion that the Federal Reserve System should increase the portfolio as a means of supporting the Government bond market and of dispelling the rumor that the System proposed to follow a restrictive money policy. Apart from the fact, he said, that it would be construed as inconsistent with the policy of decreasing excess reserves in order to give the System control when necessary, it might well add unwise stimulus to the inflation of prices which should be checked rather than encouraged.

The Chairman then called upon Mr. Goldenweiser for a statement as Economist of the Federal Open Market Committee. Mr. Goldenweiser said that the basic economic situation was good, that recovery was definitely under way with a very rapid rise in business activity in December, a slight recession in January and February due chiefly to labor troubles and floods, and a resumption of the upward trend in the latter part of February and early part of March. He pointed out that recovery was not confined to the United States but that conditions were fairly good in most of the large countries and that France, in spite of her financial difficulties, was experiencing a decided economic upturn. The fact still remained, Mr. Goldenweiser said, that recovery in the United States was still quite incomplete and below the level reached in other countries, that there was still a low level of production and a large amount of unemployment, that activity in the construction and railroad equipment industries was at a relatively low point and that electrical plants, which were producing a record amount of power, had not yet engaged to any extent in plant expansion. He referred to the large aggregate amount of funds available for business expansion and to the fact that there had been some increase in the amount of commercial borrowings, accompanied by a decrease in Government security holdings of banks, which he regarded as a healthy condition on the theory that as lending for commercial purposes increases bank holdings of Government securities should decline in order to avoid a further increase in the amount of deposits available for business expansion. He said that the fact that the present supply of money is large and is concentrated in the financial centers and in the hands of people holding it for investment gives strength to the investment market, that reactions in the securities market were the result of psychological factors rather than fundamental economic changes, and that, while they were to be expected under existing conditions, they should not cause the System particular concern. He felt, however, that the System was confronted with the important problem of what its position would be if the present market situation continues or another readjustment takes place at a later date resulting in a decline in security prices, when a difference of opinion may develop with respect to the action that should be taken by the System to meet the situation. When that time comes, he said, the System should consider buying Government securities rather than refusing to take such action and run the risk of action being taken in another form which would complicate the machinery of credit control and result in divided responsibility for such control. He also referred to the fact that the statement issued to the press at the time the Board of Governors took action to further increase reserve requirements pointed out that the increase would place the Federal Reserve System in a position to exercise monetary control through open market operations, and expressed the opinion that an increase of $100,000,000 or $200,000,000 in the System account at a time of market weakness would do no serious harm and that an equal amount of securities could be disposed of or allowed to run off at an appropriate later time. He added that, while there was no economic justification for an increase in the System portfolio at this time, he felt, for the reasons set forth above, that the Federal Open Market Committee should give the executive committee authority to increase the System portfolio, such action being based on the uncertainty in the Government bond market and the fact that it might be found to be desirable to increase the System portfolio in order to prevent a disorderly market.

At 1:16 p. m. the meeting adjourned and reconvened at 2:50 p. m. with the same attendance as at the morning session, including Mr. Thurston.

Mr. Williams said that the feeling had been growing with him that the present is one of the most difficult periods the Federal Reserve System has been called upon to face. He referred to the recovery of business activity to around the previous peak and said that the movement promises to go somewhat beyond that level, that in terms of real income and employment the volume of activity should go to substantially higher levels than the country has ever seen before, and that when business activity has reached approximately the present level and there is a disturbing element present, such as an unwarranted increase in prices, that element exerts a restricting influence which might halt the recovery before it reaches anything like a desirable level. He said that the disturbances which exist at the present time are nonmonetary in character and if they are not corrected sooner or later the System will be forced to take restrictive monetary action to prevent dislocations.

The Government, Mr. Williams said, is faced with the fact that up to the present time most of the actions which it has taken have been generally popular actions, that from now on the emphasis will have to be placed on restrictive action, that the feeling is growing that restrictive action is necessary in order to prevent inflation, and that, if, in the face of such a feeling, action is taken which is regarded as inflationary, such as an increase in excess reserves through open market purchases of securities, the discontinuance of the sterilization of imported gold, or the use of the stabilization fund, such action would be very difficult to justify and was, in his opinion, not to be expected unless a crisis develops. He added that the specific question before the System at the present time was whether it should only attempt to prevent a disorderly market or go beyond that to a point which might necessitate action which would increase excess reserves. He said he would not favor at the present time any action which would go beyond the present policy of shifting maturities of securities in the System account in the effort to maintain an orderly market.

In response to an inquiry, Mr. Williams said that he felt that increasing the amount of securities in the System account between now and May 1, when the last increase in reserve requirements will be come effective, might be interpreted as a reversal of the policy followed by the Board in reducing excess reserves of member banks, and that he felt that the real field for action was in the field of prices and not in any field in which the Federal Reserve System or the Treasury was authorized to act. In response to a further question, Mr. Williams said it might be wise to give the executive committee considerable latitude to meet any situation that might arise before another meeting of the Committee.

In the discussion which followed reference was made again to the fact that in both of the statements issued by the Board in connection with increases in reserve requirements it was expressly stated that the Board was using a relatively inflexible method of credit control which would place the System in closer touch with the situation and that it would reserve the more flexible instrument of open market operations for use in the future as the public interest may require. It was felt by some that if it should be found desirable to increase the System portfolio for the purpose of preventing an unjustified dislocation in the securities market, such action by the System should not be regarded as a reversal of System policy upon which the increases in reserve requirements of member banks were based.

It was felt by some of the members that an increase in the amount of securities in the System account might be interpreted as evidencing an inflationary policy and as a signal to convert Government security holdings into equities. All of the members agreed that in the absence of conditions not now foreseen an increase in the System portfolio would not be justified at this time, that the System should continue to operate under the authority to make shifts in securities in the account, to prevent a disorderly market, and that for that purpose additional authority should be granted to the executive committee to make such shifts of securities.

> Upon motion duly made and seconded, and by unanimous vote, the Committee instructed the executive committee 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 $800,000,000 and that the amount of bonds having maturities in excess of five years be not over $800,000,000 nor less than $500,000,000.

Further discussion disclosed a consensus that it would be undesirable for the System to continue indefinitely to increase the proportion of bonds held in the System account at as great a rate as had taken place during the past week, and that, if it appeared that the prevention of a disorderly market would justify further shifts in large amounts, beyond the limits in the resolution, it might become advisable to increase the aggregate amount of securities held in the account in order to preserve a desirable ratio of short to long term securities in the account.

The members of the executive committee present were in agreement that, if the Federal Open Market Committee should grant authority to increase the System portfolio, such authority would not be used unless an emergency arose which called for such action.

Consideration was then given to the form in which a resolution authorizing emergency increases or decreases in the System account might be adopted. The matter was discussed in some length, and various forms which the resolution might take were suggested.

The question was raised whether the executive committee would be obliged to exhaust its authority under the resolution just adopted authorizing shifts in the System account before increasing or decreasing the total amount of securities held in the account and the opinion was expressed that, while in the absence of an emergency the committee should operate under the authority to make shifts, the executive committee should be in a position to exercise either or both authorities to meet situations which might arise. It was suggested, however, that if the second resolution were adopted it should be made clear to the Secretary of the Treasury that it was the plan of the executive committee to continue to act under the authority to make shifts in the account, that on the basis of the present situation there was no necessity to resort to the authority to make increases in the System portfolio, and that such action would be resorted to only in the event of the development of new circumstances which, in the judgment of the executive committee, would make necessary an increase in the portfolio.

> Upon this understanding and in view of the circumstances discussed by the Committee and reported herein, the Committee, upon motion duly made and seconded, and by unanimous vote, authorized the executive committee to arrange for an increase or decrease in the present amount of securities in the System open market account by not more than $250,000,000 in the event of an emergency arising requiring such action before a meeting of the Federal Open Market Committee can be held.

At this point the Chairman left the room to receive a long distance call from the Secretary of the Treasury who was in Georgia. Upon his return the Chairman reported that Mr. Morgenthau inquired what action had been taken and that he (Chairman Eccles) advised the Secretary that the Federal Open Market Committee had been in session all day, that it had heard reviews of the present business and economic situation by Messrs. Goldenweiser and Williams, that the entire situation had been discussed thoroughly, and that every effort had been made not to overlook any monetary or economic factor which would influence the judgment of the Committee. He reviewed for the Secretary the transactions which had taken place in the System account today and advised him that the Committee had adopted a resolution authorizing the executive committee to direct shifts of securities in the System account, that under this authority the amount of bonds in the account with maturities in excess of five years could be increased by approximately $250,000,000, that if such an increase were made it would reduce the amount of securities in the account having maturities within two years to approximately $800,000,000 with approximately $500,000,000 falling due within one year, and that it was felt that it would not be good policy to let these maturities go below these amounts, as a further reduction would place the System in a position where, in case of necessity, it might not be able to make a restrictive policy effective by allowing maturities in the System account to run off without replacement. The Secretary, Chairman Eccles said, concurred with the Committee's position on this point.

Chairman Eccles also reported that he advised the Secretary of the adoption of a resolution authorizing the executive committee in the event of an emergency to increase or decrease the System account by $250,000,000 without a further meeting of the full Committee. He reviewed for the information of the Secretary the considerations which had been discussed as justifying such a resolution and expressed the opinion of the Committee that the present situation in the Government bond market was the result of a general trend, that contributing factors were labor difficulties, armament programs and lack of confidence that the budget would be balanced, that England and Canada had gone through an adjustment resulting in increases in the yields on English and Canadian bonds to 3½%, and that the prices of corporate securities in the United States had been declining since last fall, all of which convinced the Committee that an attempt to maintain the present prices of Government securities would be a mistake, particularly in view of the fact that the trend was in the face of an abundance of funds for business purposes and was not the result of a monetary situation. Mr. Eccles said that he stated that the Committee felt that it should continue to operate through shifts of securities in the System account to maintain an orderly market and that the portfolio should be increased only as a last resort in an emergency which would justify such action and would prevent the action being interpreted as having been taken for the purpose of supporting the Government bond market, which interpretation might have an adverse effect instead of a favorable effect upon the market. He also referred to the possibility that interest rates had been permitted to fall too low and stated that it was questionable whether any effort should be made to maintain the price of securities which had been issued at these extremely low rates, except action to prevent a disorderly market during the period of adjustment, that it was his opinion that Government securities continued to be an excellent investment with satisfactory yield and the safest investment that could be made, and that, while the investor could not be insured against the effects of wars and unforeseen conditions, if the Government would balance the budget and deal effectively with labor and armament problems which result in abnormal price increases, there was no question in his mind that the price of Government securities would increase instead of decline. The Secretary, Chairman Eccles said, did not disagree with this opinion and appeared to be satisfied with the position which the Committee had taken.

Reference was then made to the authority granted to the executive committee at earlier meetings of the full committee to permit fluctuations in the total amount of the securities held in the System account between statement dates and it was agreed that this authority should be renewed for reasons previously stated.

> Upon motion duly made and seconded, and by unanimous vote, the Committee authorized the executive committee to permit such fluctuations, within reasonable limits, in the amount of holdings of Government securities in the System open market account between weekly statement dates as may be desirable for the practical administration of the account in making shifts between and replacements of securities pursuant to the general authority granted by the Federal Open Market Committee.

Thereupon at 7:00 p.m. the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.