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 Tuesday, May 4, 1937, at 11:00 a. m.

PRESENT: Mr. Harrison, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Sinclair
Mr. McKinney
Mr. Martin
Mr. Day

Mr. Morrill, Secretary
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
Mr. Williams, Associate Economist
Mr. Carpenter, Assistant Secretary of the Board of Governors
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors

The Secretary reported that Mr. Day, who was attending a meeting of the Federal Open Market Committee for the first time, had filed the required oath of office as a member of the Federal Open Market Committee and that it was the opinion of the Committee's counsel that Mr. Day had duly qualified to participate in the meeting.

Consideration was given to suggestions which had been made with respect to the form of the minutes of the Federal Open Market Committee and particularly to the suggestions that the Committee agree that the minutes be prepared in less detail, that whenever an agreement is reached or a position taken by the Committee the agreement or action be expressed as a formal motion or resolution and voted upon, so that it may be so recorded in the minutes, and that individual statements of opinion or position be omitted from the record, unless the person making the statements requests that it be incorporated in the minutes in which case the authorship should be shown. During the discussion the Committee considered the questions (1) whether the present form of minutes should be continued, (2) whether the changes referred to above should be made in the present form, (3) whether the minutes should be prepared in a brief form which would state only the actions taken with the votes thereon followed by the reasons and any explanatory discussion that might be necessary, and (4) whether a full stenographic report should be made of the Committee's proceedings.

> At the conclusion of the discussion Mr. McKee moved that the vice chairman appoint a committee to consider the entire matter and submit a recommendation to the Federal Open Market Committee.
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> This motion having been duly seconded was put by the chair and carried by unanimous vote.
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> In accordance with this action Mr. Harrison appointed Messrs. Ransom, Davis and Sinclair as members of the committee.
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> Upon motion duly made and seconded and by unanimous vote, the minutes of the meeting of the Federal Open Market Committee held on March 15, 1937, were approved.
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> 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 March 13, 15, and 22-23, 1937, were approved, ratified and confirmed.

Mr. Harrison submitted a report prepared by the Federal Reserve Bank of New York of operations in the System open market account since the meeting of the Committee on April 3-4, 1937, which operations had been reported in detail in the weekly reports made by the bank.

> Upon motion duly made and seconded and by unanimous vote the transactions referred to in the report were approved, ratified and confirmed.

The question was raised whether the Committee should take any action at this time with respect to directing a quarterly readjustment, as of July 1, 1937, of the participations of the Federal reserve banks in the System open market account and in that connection reference was made to the report of Mr. Burgess, Manager of the System Open Market Account, at the last meeting of the Federal Open Market Committee, that, in the event of further depreciation in the System account, some of the Federal reserve banks might desire that the entire matter of adjustment of participations in the account be reconsidered before the next quarterly readjustment date.

> Upon motion duly made and seconded and by unanimous vote, action on the matter was deferred with the understanding that Mr. Smead, Chief of the Division of Bank Operations of the Board of Governors, and Mr. Burgess or Mr. Sproul, of the Federal Reserve Bank of New York, would be requested to study the questions which might arise in connection with the next quarterly readjustment and to submit a report which would be sent by the Secretary to the Presidents' Conference for consideration and a recommendation as to the action to be taken.

At 12:10 p. m. the meeting recessed and reconvened at 2:35 p.m. with the same attendance as at the morning session and, in addition, Chairman Eccles and Mr. Goldenweiser, Economist for the Federal Open Market Committee.

In response to a request for a statement as to present business and credit conditions Mr. Williams said that conditions had undergone a change since the meeting of the Committee in March at which time he was fearful that the recovery movement was proceeding too rapidly and that it might turn into a disorderly upward movement which might result in price spirals and dislocations which would be distinctly harmful. He stated that, during the interim since the last meeting of the Committee, the movement had leveled out with some reduction in prices both at home and abroad and a more orderly condition had appeared, so that there seemed to be much less likelihood of a runaway movement than was the case a month or two ago.

He referred to statements made by some economists that the present uninterrupted recovery movement was the longest on record and that, therefore, a recession could be expected, and stated that while the records of past recoveries and reactions might indicate that a decline in business activity could be expected he did not feel that such a conclusion should be drawn from the present situation. He stated that because of the many uncertain factors in the situation it was difficult, if not impossible, to forecast what the future would bring, but that he felt, because of what appeared to be a strong underlying demand for goods, particularly durable goods, that the continuation of recovery might reasonably be expected.

The general conclusion that he would draw from this situation, Mr. Williams said, was that there was no need at the present time for a change in the present easy money policy by the adoption by the Federal Reserve System of any restrictive measures nor for any action which would result in further stimulation of business activity.

He stated that, notwithstanding the fact that there had been a long period of sustained business improvement, there had been little progress made in reducing expenditures and that, if the budget were not balanced under the existing favorable conditions and a reaction should set in which would increase the relief burden and reduce revenue, a serious situation might result, and that therefore he welcomed the present movement toward reduction in Government expenditures.

He added that, inasmuch as the period of adjustment to the May 1 increase in reserve requirements was past, or nearly so, he did not see any necessity for continuing purchases of Government securities, that such action would result in further easing the situation which he did not feel was justified at this time, and that the question before the Committee was whether it would take the position that further stimulation, which might prove to be dangerous to the progress of orderly recovery, would be justified in order to prevent disorderly conditions in the Government securities market should such conditions develop. He felt that the System should follow a middle course which would result in no restriction to the present movement nor add further stimulation to it.

Mr. Goldenweiser stated that he was in general agreement with Mr. Williams' position and expressed the opinion that, as the business and financial world was much more sensitive and responded more quickly to changing conditions than had been the case in the past, the instruments which the System had at hand for credit control were much more effective in influencing the business and credit situation at the present time than would have been the case some years ago. As an illustration of this fact, he referred to a recent rumor concerning the possibility of a reduction in the price of gold which resulted in a substantial decline in the prices of commodities traded in on the international markets and a recession in world business activity. In these circumstances, he said, he felt more hopeful that the instruments available to the System would be effective in the field of credit control and that in view of this situation he felt the System should not give too much attention to records of past movements but should analyze existing conditions carefully and reach a decision on that basis as to what should be done.

In connection with the question of Government expenditures, he agreed with Mr. Williams that it was desirable to balance the budget, but he felt that the entire matter of Government expenditures should be reviewed for the purpose of determining in what fields money should be spent. He said that the emphasis should be shifted from the total volume of expenditures, which may have been justified in the period of "pump-priming", to the nature of expenditures. He thought, on the other hand, that if it were found that a large volume of funds were needed to meet the relief problem adequately, this could be accomplished without inflation if such expenditures were met by increased taxation. He did not see any great possibility at this time of a new period of depression setting in with the Government debt at a high level, and he expressed a further opinion that the budget situation, with the possibility of a relatively small deficit for the fiscal year 1938, was a definite indication that the country was not in any real danger of a period of general inflation.

He concluded by emphasizing that, inasmuch as it has been shown that the powers which had been used to exert an influence on credit conditions had worked more effectively than some had anticipated, he felt that the responsibility of the System to use its powers wisely was greatly increased.

After a statement by Mr. Williams with respect to the present position of gold in the world monetary picture there was a general discussion of the effect of the continued inflow of gold into the United States on the monetary and credit situation, the reasons for the continued inflow, and steps that might be taken to meet the problem. There was also a discussion of the questions which would arise if the Treasury should consider it necessary or desirable to discontinue the present policy of sterilizing gold.

At the conclusion of the discussion the meeting recessed to convene again on May 5, 1937.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.

The meeting of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Wednesday, May 5, 1937, at 10:50 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Sinclair
Mr. McKinney
Mr. Martin
Mr. Day

Mr. Morrill, Secretary
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Wyatt, General Counsel
Mr. Carpenter, Assistant Secretary of the Board of Governors
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors

There ensued a general discussion of open market policy and the directions to be given to the executive committee to effect transactions in the System open market account.

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 $1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over $850,000,000 nor less than $500,000,000.

During a discussion of the extent to which authority should be given to the executive committee to increase

> or decrease the total amount of securities held in the System account, Mr. Davis moved that the Committee direct the executive committee to make purchases and sales (including authority to allow maturities to run off) of United States Government securities for the System open market account to such extent as may be necessary before the adjournment of the next meeting of the Federal Open Market Committee, for the purpose of preventing disorderly market conditions, provided that the aggregate amount of securities held in the account shall not be increased to an amount exceeding $2,680,000,000 nor decreased to an amount less than $2,180,000,000; the kinds and maturities of the securities acquired or sold to be determined in the light of current market developments.

Mr. Harrison referred to the resolution of similar nature adopted by the Federal Open Market Committee on April 4 and to the actions taken by the executive committee under that authority, and he inquired whether, if the motion offered by Mr. Davis were carried it would be the intention of the full Committee that the executive committee would have authority to decrease as well as increase the account, whether there would be any restriction on the executive committee with respect to reductions in the account within the limitations provided in the new authority, or whether it would be expected that another meeting of the Committee would be called before the account could be decreased.

It was agreed that each member of the Committee should state his views on the questions raised by Mr. Harrison.

Chairman Eccles stated that he did not feel it would be advisable to reduce the portfolio by more than a small amount, although he did not object to slight reductions merely for the purpose of accustoming the public to changes in the account, but that he was of the opinion that it would be unwise to make any substantial reduction in the account until the budget was more nearly balanced and the gold problem was nearer a solution than was the case at the present time. He favored the process of shifting maturities of securities in the System account to the fullest extent possible in order to prevent disorderly market conditions. He stated that he would if necessary increase the portfolio by purchases in the market of Treasury bills at the time of a new offering of bills, with the understanding that securities equal to the amount of bills acquired would be disposed of as soon as possible thereafter, and that he would also favor temporary increases in the System account with a view to preventing disorderly conditions over a quarterly income tax payment period or Treasury financing period, with the understanding that securities in an amount substantially equal to the amounts purchased would be disposed of as soon as the market had adjusted itself to the shifts of funds during such period.

Mr. Martin stated that it had been his understanding that the procedure under which the executive committee had operated was that the full Committee determined the policy that should be followed in the light of existing conditions, that under the instructions of the full Committee the executive committee carried out operations in accordance with that policy, and that if it should become necessary to reconsider policy matters another meeting of the full Committee would be called and the executive committee given further instructions. He expressed the opinion that under existing conditions the executive committee should be authorized to increase or decrease the account in such manner as would be in accordance with the policy of preventing disorderly market conditions.

Mr. Harrison stated that he would vote for Mr. Davis' motion on the ground that he believed it always advisable for the executive committee to be prepared to act promptly in exercising its influence toward preventing, as far as possible, disorderly money market conditions. He also stated that in voting for the resolution it was his understanding that the motion was intended to enable the executive committee to act equally freely and flexibly either by making purchases or sales of securities, in carrying out this purpose. He added that if, in the course of routine operations by the System designed to prevent a disorderly market, money rates should change substantially or become too high or too low for the good of the country's economy, whether because of budgetary policy or gold policy or for any other reason, then, he felt, there should be another meeting of the Federal Open Market Committee to consider major credit policy.

Mr. McKinney said that the language of the proposed motion was clear; that it set out none of the factors that should be taken into consideration by the executive committee except that transactions in the account should be for the purpose of preventing disorderly market conditions; that, therefore, the burden was on the executive committee to consider the desirability of sales as well as the desirability of purchases for the purpose stated; and that the motion would leave to the executive committee the determination of what constituted disorderly market conditions. He also said that, if a question with respect to influencing interest rates or some other matter of general policy should arise, a meeting of the full Committee should be held to explore the problem.

Mr. Szymczak said that, when the Board of Governors adopted the policy of increasing reserve requirements, that action was taken because of the amount of excess reserves which provided a base for credit expansion beyond the needs of commerce, industry and agriculture. The action, he said, placed the System in a position to take action in the open market, and he had felt that action in the open market would be taken only when further excess reserves were to be absorbed, or when a reversal of the anti-inflationary policy was to be adopted for the purpose of making possible further expansion of credit in accordance with the needs of industry, commerce and agriculture. Since then, however, there has been no evidence presented that would show the need of reversal of the policy adopted by the Board, when the increase in reserve requirements was announced. He did not feel that the System could assume responsibility for the condition of the Government securities market, particularly in view of the fact that other factors, including the gold and budget problems, which were beyond the control of the Federal Reserve System but which must be taken into consideration in determining System policies, had a direct effect on the condition of the market. Since the System's Open Market Committee has recently adopted a policy of increasing its open market portfolio, not with the purpose of reversing its anti-inflationary policy, but to ease the condition of the market over the period of adjustment to the May first increase in reserve requirements, and since May first has passed, there remained only the question of continuing the policy of preventing disorderly market conditions. He felt, therefore, that the Committee should now sell or allow to run off, as well as purchase, Government securities in accordance with that policy. He also stated that he felt discretionary power should be given to the executive committee to purchase, sell or allow to run off, securities within the limitations fixed by the full committee.

Mr. Sinclair did not think that at this particular time the System should apply any restrictive measures. He also expressed the opinion that when reference was made to open market operations as a flexible instrument of control the term should mean just that and that the System intended to use the instrument both ways according to conditions in the money market from day to day. It was his view that the executive committee under the proposed motion should not, without a further declaration of policy by the full Committee, endeavor to stem changes in trends of interest rates, but should limit itself primarily to offsetting sudden and drastic changes in rates either way, which was his understanding as to what was meant by "preventing disorderly market conditions". He said that the causes of such conditions may be manifold, such as those arising out of the gold or budget problems or the exigencies of government financing; that the executive committee should, by purchases and sales, meet opportunities to steady the market in these respects, but should not attempt to support the market the trends in which may be affected by underlying causes over which the committee can have no control or but little influence. He added that with this brief statement of his view as to what he considered to be the function of the executive committee under the motion, he would vote in favor of its adoption.

Mr. Ransom stated that he would support Mr. Davis' motion but that he thought it could be worded somewhat differently to state more nearly the thoughts which had been expressed and certainly his own views. He did not think the general question of interest rates could be disassociated from order or disorder in the Government securities market and he expressed agreement with the opinion that there were other very important factors, including the gold question and the budget situation in particular, which were beyond control of the System except as it was able to influence them indirectly. He said that, now that the May 1 increase in reserve requirements had become effective, he did not anticipate it would be the policy of the Federal Open Makket Committee to increase the portfolio for the purpose of increasing reserves, and that, while he felt the executive committee might be able to function more happily with more definite authority than that contained in the mandate incorporated in Mr. Davis' motion, he did not have at the time any specific suggestions to offer.

Mr. Davis expressed the opinion that the Committee's action should be treated as nearly as possible as a routine matter and in a way that would attract as little attention as possible. He said he would not be disturbed if the total amount of securities in the account dropped below the existing level; that he did not believe the proposed motion would authorize the executive committee to use the authority to bring about a progressive increase in interest rates; and that he favored continuing authority in the executive committee to change the total amount of securities in the account should conditions warrant and to prevent the total from again becoming fixed. He said that he preferred having the executive committee maintain the status quo as far as possible and that he would not want the total of the account decreased by an amount that could be regarded as a change in policy or that might result in a hardening in rates. The account, he said, should be operated to prevent a disorderly rise as well as a disorderly fall in the Government securities market.

Mr. Day stated that he would vote for the resolution in order to give the executive committee the opportunity, in its discretion, to fluctuate the account to meet the demands of the day as such demands arise in connection with the policy of preventing disorderly market conditions. He felt that, should a substantial change in the situation occur which would require a reconsideration of policy, a meeting of the full Committee should be held. He interpreted the resolution not as an authority to influence money rates or security prices but as authority to effect transactions in the System open market account with a view to maintaining orderly conditions in the Government security market which might require sales as well as purchases of Government securities for the account.

Mr. McKee said he was ready to vote in favor of the motion proposed by Mr. Davis, believing it to be a continuation of the authority given to the executive committee by the full Committee at the meeting on April 4, 1937. He expressed the hope, however, that it would not be necessary to further increase the portfolio if the authority were renewed, and that an opportunity would be presented for some decrease in the account through sales or allowing maturities to run off. He expressed the opinion that in the past the open market portfolio had been allowed to remain in a static condition for an undesirable length of time, that the recurrence of such a condition in the future should be avoided, and that the Committee should take advantage of opportunities to make such reasonable reductions in the portfolio as might be made without creating disorder in the market. He also stated that one of his reasons for voting in favor of increasing the portfolio at the time action was taken by the Federal Open Market Committee was predicated on the understanding that the Treasury would continue its present gold sterilization policy, and that, if and when the Treasury saw fit to change such policy, he believed it advisable for the full Committee to meet immediately after notice of such change for the purpose of considering the advisability of decreasing its portfolio so as to counteract any adverse effect on the volume of reserves caused by a reversal of the policy referred to.

Mr. Broderick favored Mr. Davis' motion. He said that general open market policy was determined by the Open Market Committee, that the executive committee, as the operating body, must be given discretionary power to operate within the limits of the general authority in order to be able to meet changing market and business conditions, and that this procedure was necessary because of daily uncertainties as well as psychological reactions. He also said that in this connection he was looking forward with great interest to the reaction on Wednesday of this week to the weekly statement of condition of Federal reserve banks which will show no increase in the portfolio over the previous week. He did not think the System could peg the market nor exercise control, but could only influence the trend and check the pace. It was his impression that, in the future, attention would not be focused on the aggregate amount of securities in the portfolio but rather on the amount of long term bonds, and that changes in maturities would not be of as great importance as the changes in holdings of long term bonds. As to the Treasury bill market, he expressed the opinion that there should be a wider market, of interest to banks in sections of the country other than New York where the market is now largely concentrated; that it may be that the 9 months maturities are too long to be attractive; that it might be well to try 3 and 6 months maturities; that the banks need short term bills to balance their position; that the System should always be interested in the success of Treasury bill offerings, but should not give, nor be requested to give, a guaranty that it would stand prepared to make such offerings successful; and that a better way of arriving at the desired result would be to increase interest in the bill market through a wider participation by banks and investors throughout the country.

Mr. Goldenweiser stated that he felt that the proposed motion was not adequate, that there was clearly a policy issue before the Committee whether the authority to be granted should be used merely to see that no violent fluctuations were permitted to occur or whether the Committee wished to use its influence to maintain easy money conditions and low money rates, and that the full Committee should take a position on this issue.

At this point Mr. Dreibelbis, Assistant General Counsel, joined the meeting.

At the conclusion of the ensuing discussion, Mr. Davis' motion, having been duly seconded, was put by the chair and carried unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.