

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, June 9, 1937, at 10:45 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

Messrs. Schaller and Peyton, Presidents of the Federal Reserve Banks of Chicago and Minneapolis, respectively

Mr. Morrill, Secretary
Mr. Wyatt, General Counsel
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Burgess, Manager of the System Open Market Account
Mr. Carpenter, Assistant Secretary of the Board of Governors of the Federal Reserve System
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors of the Federal Reserve System

Mr. Ransom stated that the committee which was appointed at the meeting of the Federal Open Market Committee on May 4, 1937, to consider the form of the minutes of the meetings of the Committee and its executive committee had reviewed the minutes of that meeting as well as minutes of the subsequent meetings of the executive committee and was of the opinion that these minutes were in satisfactory form and that if the

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same form is followed in the preparation of minutes of future meetings the special committee would have no suggestions to offer.

Upon motion duly made and seconded, and by unanimous vote, the minutes of the meetings of the Federal Open Market Committee on April 3-4, and May 4-5, 1937, were approved.

Upon motion duly made and seconded, and by unanimous vote, the actions of the executive committee as set forth in the minutes of the meetings of the executive committee on April 4-6, 19-20, 26, May 3-5, and June 2, 1937, were approved, ratified and confirmed.

Mr. Burgess submitted and reviewed briefly a report prepared by the Federal Reserve Bank of New York covering transactions in the System open market account since the meeting of the Federal Open Market Committee on May 4, 1937. He also reported the transactions which had been effected, up to and including June 8, 1937, since the written report had been prepared.

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

It was agreed that there should be incorporated in the minutes of this meeting reports made by Messrs. Goldenweiser and Williams at the meeting of the members of the Board of Governors with Presidents of Federal reserve banks on June 8, 1937. At that meeting Mr. Goldenweiser distributed copies of a memorandum prepared by the Division of Research and Statistics of the Board of Governors under date of June 4, 1937, on the subject of business and credit conditions and commented briefly on the important points covered by the memorandum,

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a copy of which has been placed in the files of the Federal Open Market Committee. Summaries of the comments of Messrs. Goldenweiser and Williams are set forth below.

With reference to the distribution of maturities of the securities in the System open market account Mr. Goldenweiser suggested that, with approximately \$700,000,000 of long-term bonds, \$1,100,000,000 of maturities within two years, and the balance of the maturities between two and five years, the portfolio was in a fairly satisfactory condition. He felt that, in view of prospective developments in the reserve position of member banks during the remainder of the year, the short-term securities now in the account would be adequate to make effective a policy of reducing reserves by allowing maturities to run off if such a policy should become desirable. On the subject of the continued inflow of gold into the United States, he expressed the opinion that, because of the large volume of gold imports, the Treasury would eventually abandon its present policy of sterilizing such imports and the Federal Reserve System would be under the necessity of taking action to counteract their effects upon the money market. He said that for that reason it was important that the Federal Reserve System be in a position to absorb gold imports in some manner and assist in discouraging further additions to the gold supply and that additional powers were necessary for that purpose. He suggested that study should be given to a plan for putting an upper limit on the amount of reserve balances that could be counted as reserves. He added that it was becoming more and more apparent that unless the banking system in the

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United States is unified and the Federal Reserve System is granted additional authority it will not be able to discharge properly the responsibilities now resting upon it.

Following Mr. Goldenweiser's statement, Mr. Williams stated that he was impressed by the rapidity with which things had changed. Two or three months ago, he said, the System was disturbed by the speed with which the recovery movement was progressing and prices were advancing, whereas the indications of undue expansion, including the accumulation of inventories in anticipation of higher prices, had now largely disappeared. He felt that the large increase in the price of building materials which had taken place might have an adverse effect upon the volume of construction, and that the continuation of serious labor troubles would undoubtedly have a similar effect upon the progress of business recovery. He expressed the opinion that the much talked of recession in business had not materialized to any substantial extent and that, while some economists had concluded that there would be a recession of business in the third quarter of the year, there was little evidence at the present time of such a recession, and that it was the general expectation that in any event recovery would be resumed by fall. He added that the slowing down of the rate of business activity was salutary in effect and had decreased substantially the possibility of any major disorders in the progress of business recovery, and that, in his opinion the continued inflow of gold and the possible effects of that movement upon credit conditions constituted the most important problem before the Federal Reserve System at the present time.

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It was the unanimous agreement of the members present that the reasons for the authority granted to the executive committee by the full Committee at its meeting on May 5, 1937, to replace maturing securities and to make shifts between maturities of securities in the System open market account still applied and that such authority should be renewed.

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.

Reference was made to questions which had been raised with respect to the forms of resolutions adopted by the Committee and it was suggested that a special committee be appointed to consider the forms of resolutions and submit a recommendation at the next meeting.

Mr. Harrison moved that the Chairman appoint a committee of three for the purpose stated.

This motion, having been duly seconded, was put by the chair and carried unanimously.

Thereupon it was agreed that authority to the executive committee to increase or decrease the total amount of securities in the System account should be renewed for the same reasons as had prompted similar action at the meeting of the full Committee on May 5, 1937.

Upon motion duly made and seconded, and by unanimous vote, the Committee directed the executive

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committee to make purchases and sales (including authority to allow maturities to run off without replacement) 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 or decreased from the amount now held in the account by more than \$250,000,000; the kinds and maturities of the securities acquired or sold to be determined in the light of current market developments.

Mr. Harrison stated that at the meeting of the Presidents' Conference on June 7, 1937, following consideration of the report submitted by Messrs. Smead and Burgess with respect to the formula used for the quarterly readjustment of the participations of the Federal reserve banks in the Government securities held in the System open market account, the Conference had recommended that, provided there is no substantial amount of depreciation in the account as of July 1, 1937, the participations of the Federal reserve banks in the account be readjusted as of that date on the same basis as that used in the readjustment on April 1, 1937. The Conference also recommended, Mr. Harrison stated, that Messrs. Smead and Burgess continue their studies to determine whether a more satisfactory formula for such adjustments could be devised. Mr. Burgess stated that at the present time there is a small amount of appreciation in the account.

Upon motion duly made and seconded, and by unanimous vote, the executive committee was authorized to make a quarterly readjustment of the participations of the Federal reserve banks in the System account, as of July 1, 1937, in accordance with the same plan and procedure as that followed

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in connection with the adjustment made as of April 1, 1937, which contemplates that before it is actually made the proposed readjustment will be submitted to the Federal reserve banks for any comments that they may desire to make.

The meeting recessed at 1:05 p.m. and reconvened at 2:45 p.m. with the same attendance as at the morning session except that Messrs. Schaller and Peyton were not present.

Chairman Eccles suggested that consideration be given at this meeting to the proposal that the Federal Open Market Committee adopt a plan for purchases by Federal reserve banks of Treasury bills offered to them by member banks. The proposal had been discussed informally by the members of the Board of Governors and had been considered by the Presidents' Conference and the Board at a meeting yesterday. Chairman Eccles outlined the reasons why in his opinion it would be desirable to adopt such a plan and during a discussion of these reasons various members of the Committee raised questions which had occurred to them with respect to the objective, effects, and operation of the plan.

Mr. Harrison suggested that it would be desirable if the proposal could be studied by the members from the standpoint of its effect upon the entire credit situation and credit policy as well as upon the bill market and that for that purpose a memorandum outlining the details of the plan be prepared for the consideration of the Committee. He also inquired whether the matter had been discussed with the Treasury Department and Chairman Eccles stated that it had not been except that he had

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mentioned it briefly to Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, whom he had told that he (Chairman Eccles) proposed to submit it to the Federal Open Market Committee for consideration.

Mr. Ransom suggested that the executive committee be requested to study the entire matter and submit a report thereon for the consideration of the full Committee. There followed a brief discussion of a question raised by Mr. McKee whether the executive committee should not confine its activities to the performance of administrative functions only and not be expected to consider questions of policy.

Mr. Ransom moved that it be the sense of the Federal Open Market Committee that the executive committee should consider matters of policy from time to time, whenever it is requested or desires to do so, and submit recommendations to the full Committee with respect thereto.


This motion having been duly seconded was put by the chair and carried unanimously.

Upon motion duly made and seconded, and by unanimous vote, the executive committee was requested to study the proposal presented by Chairman Eccles and to prepare and send to the members of the full Committee, prior to a meeting of the Federal Open Market Committee to be held on August 5, 1937, a memorandum outlining the plan in detail, including its objectives, mechanics and possible effects, together with any views or suggestions that the executive committee might desire to present for the consideration of the full Committee.

Thereupon the meeting adjourned.

Approved:


Chairman.


Secretary.