A meeting of the executive committee of the Federal Open Market Committee was held in the offices of the Board of Governors of the Federal Reserve System in Washington on Saturday, March 13, 1937, at 10:15 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Szymczak
Mr. Ransom
Mr. Harrison
Mr. Sinclair

Mr. Morrill, Secretary
Mr. Goldenweiser, Economist
Mr. Burgess, Manager of the System Open Market Account
Mr. Carpenter, Assistant Secretary of the Board of Governors
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors

Chairman Eccles stated that on Friday afternoon he had discussed with Mr. Morgenthau, Secretary of the Treasury, at the latter's request, the recent developments in the market for Government securities and the various possible causes. The Secretary attributed the drop in the market for Government bonds to the increase in reserve requirements which had been ordered by the Board of Governors and expressed the opinion that the downward tendency in the market began in December, 1936, after the statement was made that the Board had under consideration the question of the advisability of raising reserve requirements. He indicated a feeling that the Federal Reserve System should take such steps as might be necessary to prevent any further decline in prices. He asked what the Federal Reserve System proposed to do to meet the situation and indicated that, in the event System action was not effective, he would have to consider the use of every authority the Treasury has, including the use of the stabilization fund and the discontinuance of the sterilization of gold imports. He considered it particularly important to prevent the newly issued 2 1/2% bonds from going below par. Chairman Eccles said that he advised the Secretary that he would call this meeting and after the Committee had discussed the matter he would advise the Secretary as to the Committee's views today.

During the discussion which followed there appeared to be general agreement that the drop in prices in the bond market was in the nature of a natural adjustment which was due primarily to non-monetary causes. Mr. Burgess stated that the selling on the market Friday appeared to come to a considerable extent from dealers who were reducing holdings of bonds acquired as a result of the March 15 financing, although selling orders were also coming in from all parts of the country. The Chairman and Mr. Thurston called attention in this connection to statements which had been put out within the past week by certain analysts which were of a character likely to be detrimental to the Government bond market. It was pointed out that should the Secretary of the Treasury resort to the stabilization fund or incoming gold the effect would be to increase reserves of member banks, and thereby to transfer to the Treasury Department a large measure of responsibility for credit control.

It was agreed that the Secretary should be advised that the executive committee felt that it was desirable to continue to follow the present policy of attempting to prevent a disorderly market through shifts in the System account and the investment of funds handled by the Secretary of the Treasury, that the committee would be willing to act alone in its efforts to avoid a disorderly market if, for any reason, the Treasury did not wish to participate in the purchases made, but that it was apparent that no commitment or guaranty should be given that market prices would be kept at any particular level, that the committee in carrying out the policy should of course be the judge of the particular methods or means that should be used, that to this end the committee is ready to use all the authority vested in it by the Federal Open Market Committee, and that a meeting of the Federal Open Market Committee would be called for Monday to consider granting additional authority to the executive committee for the purpose of meeting the situation if the existing authorizations should be found insufficient.

At 11:55 a.m. the members of the executive committee and Messrs. Morrill, Goldenweiser and Burgess went to the office of the Secretary of the Treasury where they met with the Secretary, Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, Mr. D. W. Bell, Acting Director of the Budget, Mr. Archie Lochhead, Technical Assistant in the Secretary's office, Mr. George C. Haas, Director of Research and Statistics of the Treasury Department, and other members of the staff of the Treasury. Chairman Eccles reported to the Secretary the conclusion reached by the executive committee in its separate session.

It was explained that the committee was entirely agreeable to the continuance of the existing arrangement by which the Treasury

Department participates equally with the System open market account in acquiring Government bonds in the effort to maintain an orderly market.

At this point in the discussion, the Secretary of the Treasury and the members of his staff withdrew. Upon their return, the Secretary asked Chairman Eccles what, if anything, the Federal Reserve System was going to do to counteract the firming of long-time interest rates which he (Secretary Morgenthau) felt was attributable solely to Federal Reserve System action.

Chairman Eccles stated that it continued to be his view that the policy of the Board of Governors and the Federal Open Market Committee should be to maintain easy money conditions, pointing out in this connection, however, that in his opinion it was imperative that assurance be given that the budget would be balanced in 1938, that any expenditures that would increase indebtedness should be covered by taxation, and that steps should be taken to reduce the outstanding debt as fast as commercial bank credit expands. He added that a meeting of the Federal Open Market Committee would be called for Monday, March 15, 1937, and that the Committee would be asked to give additional authority to the executive committee to make shifts between maturities of securities in the System account and also authority to increase the total portfolio of the System open market account, in the event that conditions should develop to make that necessary.

Reverting to the question which the Secretary asked Chairman Eccles about interest rates, Mr. Harrison asked the Secretary whether he thought that the rise in long-time interest rates which had already taken place was hurtful to business. The Secretary answered no but said that, if present trends continued, it might become so. When asked if he had any specific rate in mind that he thought would be hurtful, he said no, but that would depend upon conditions. Mr. Harrison agreed and said that it was for that reason that the Federal Reserve System should not attempt to peg rates at any particular point at the present time, even if it had the power to do so.

In response to a question by Mr. Morgenthau, Mr. Burgess explained that he understood that, if the action referred to above were taken, transactions would continue to be made in exactly the same way as in recent days for the purpose of aiding in the maintenance of an orderly market, with which procedure the Treasury had been in agreement. Both he and Chairman Eccles pointed out, however, that the executive committee could not undertake to "peg" the market or make a commitment that the market would not be allowed to fall below a particular point, but that, if there should be unexpected developments, the matter would be taken up with the Secretary for the purpose of ascertaining his views.

The Secretary said that in view of these assurances as to the course of action which would be followed he was willing to await developments during the next few days for the purpose of seeing what effect the operations of the System would have on the Government securities market.

Thereupon the conference with the Secretary terminated, and at 2:30 p. m. the meeting of the executive committee of the Federal Open

Market Committee reconvened in the Board's offices, Messrs. Eccles, Szymczak, Ransom, Sinclair, Morrill, Goldenweiser, Dreibelbis, Burgess, Carpenter and Thurston being present.

It was agreed that, in order to be prepared to act, if necessary, pending a review of the situation by the Federal Open Market Committee when it meets on March 15, it would be desirable to authorize the Federal Reserve Bank of New York to make shifts between maturities in the System open market account to the limit of the authority granted by the Federal Open Market Committee to the executive committee.

> Accordingly, upon motion duly made and seconded, and by unanimous vote, the committee directed the Federal Reserve Bank of New York, until the next meeting of the executive committee, to replace maturing securities in the System open market account with other Government securities, and to make such shifts (which may be accomplished when desirable through replacement of maturing securities) between maturities of securities in the System open market 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 $600,000,000 nor less than $300,000,000.

There were then presented drafts of the minutes of the two meetings of the executive committee of the Federal Open Market Committee held in Washington on January 26, 1937.

> Upon motion duly made and seconded, the minutes were approved unanimously.

Attention was directed to the fact that on February 24, 1937, upon being advised that the New York bank had exhausted most of the authority granted by the executive committee on January 26, 1937, to make shifts of securities in the System open market account into other Government securities having maturities which were not within a range of one year from those of the securities sold, the members of the executive committee, in accordance with the action taken by the executive committee at its meeting on January 26, authorized the New York bank, until the next meeting of the executive committee, to make such shifts (which might be accomplished when desirable through replacement of maturing securities) of securities in the System open market account as might be necessary in the proper administration of the account, up to an aggregate of $50,000,000, into other Government securities having maturities which were not within a range of one year from those of the securities sold; this authority being in addition to the authority granted to the bank at the meeting of the executive committee on January 26, 1937.

Upon motion duly made and seconded, it was voted unanimously to approve, ratify and confirm the action of the members of the executive committee on February 24, 1937, in granting to the Federal Reserve Bank of New York the additional authority referred to.

Attention was also directed to the fact that on March 3, 1937, following consideration of the suggestion that it might be found to be desirable to exchange directly with the Treasury Department the remaining Treasury notes maturing on April 15, 1937, in the System open market account for securities offered by the Treasury in exchange for such notes, the members of the executive committee, in accordance with the action taken by the committee at its meeting on January 26, 1937, authorized the Federal Reserve Bank of New York to exchange directly with the Treasury such amount of the April 15 maturity of Treasury notes remaining in the System account as might not otherwise be disposed of in accordance with existing authority, for securities to be offered by the Treasury to the public in exchange for the April 15 notes; this new authority being in addition to the authority granted to the bank at the meeting of the executive committee on January 26, 1937, and the authority granted on February 24, 1937, referred to above.

Upon motion duly made and seconded, it was voted unanimously to approve, ratify and confirm the action of the members of the executive committee in granting to the Federal Reserve Bank of New York on March 3, 1937, the authority to make the exchange referred to.

Upon motion duly made and seconded, it was voted unanimously to approve, ratify and confirm the transactions conducted by the New York bank in the System open market account as agent for the Federal Open Market Committee as set forth in the weekly reports submitted by Mr. Burgess since the meeting of the executive committee on January 26, 1937.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.