

The meeting of the executive committee of the Federal Open Market Committee was reconvened in the offices of the Board of Governors of the Federal Reserve System in Washington on Tuesday, March 23, 1937, at 10:40 a. m.

PRESENT: Mr. Harrison, Chairman pro tem
Mr. Broderick
Mr. McKee
Mr. Ransom (alternate for Chairman Eccles)
Mr. Sinclair

Messrs. Szymczak and Davis, Members of the
Federal Open Market Committee
Mr. Carpenter, Secretary pro tem
Mr. Goldenweiser, Economist
Mr. Dreibelbis, Assistant General Counsel
Mr. Thurston, Special Assistant to the Chairman of the Board of Governors

Mr. Harrison referred to the increase today of from $1/8\%$ to $1/4\%$ in dealers' rates on acceptances which, he stated, would result in an increase to $9/16\%$ in the asked rates of acceptances maturing up to 90 days, or $1/16\%$ above the buying rate of the Federal Reserve Bank of New York. This increase, he said, might result in bills being offered to the Federal Reserve Bank of New York and would afford a means of relieving pressure that might develop on the New York money market.

Mr. Harrison also stated that Mr. Burgess, Manager of the System open market account, had reported this morning that the Government securities market was quiet, and that in the absence of decided weakness it had been decided not to place any bids for Government bonds.

Mr. Ransom stated that he talked with Chairman Eccles over the telephone last evening and that the latter expressed the opinion that

3/23/37

-2-

the decline in the Government securities market had continued to a point where the yield on long term Government securities was quite out of line, and that the condition should be corrected by increasing the System portfolio by purchasing \$200,000,000 to \$250,000,000 of Government securities, which would demonstrate that the System did not propose to let the decline go beyond a reasonable point. Mr. Ransom said that he pointed out that the market situation was due to a number of factors of which the increase in reserve requirements was only one, but that the Chairman felt that the other factors had been fairly well discounted and that the present selling was entirely unjustified. Chairman Eccles also disagreed, Mr. Ransom said, with the suggestion that a substantial increase in the System portfolio might be interpreted as a reversal of System policy and precipitate renewed selling of securities in the market and expressed the feeling that the System should take such action immediately as might be necessary to correct the situation. In connection with the suggestion that, in the event of an emergency, it might be advisable for the Treasury to discontinue for a time the sterilization of gold imports, the Chairman felt that as the problem is essentially one of credit control it should be met by action by the Federal Reserve System rather than by action by the Treasury.

A discussion of Chairman Eccles' position ensued, during which reference was made to the factors entering into the rates of discount bid on the current issue of three and nine months Treasury bills resulting in an average discount of .71% on the nine months bills and .44% on

3/23/37

-3-

the June bills as compared with .53% and .17% respectively, on the issue offered last week.

Mr. Ransom said that Mr. Wayne C. Taylor, Assistant Secretary of the Treasury, had advised him that the Treasury had only \$2,500,000 remaining available for investment and that when this amount was used up it would be necessary, in accordance with the agreement reached with the executive committee of the Federal Open Market Committee, for the System open market account to absorb all of the bonds taken for the purpose of preventing a disorderly market.

Mr. Broderick referred to the understanding reached at the meeting of the Federal Open Market Committee on March 15 that the authority granted to the executive committee at that time to increase or decrease the System portfolio would be used only in the case of an emergency and he raised the question whether the present situation constituted an emergency which would justify use of the authority by the committee. All of the members of the Federal Open Market Committee present concurred in the opinion that neither the current decline in nor the present yields on Government securities constituted an emergency of the kind contemplated by the resolution adopted by the Federal Open Market Committee authorizing the executive committee to increase or decrease the total amount of securities held in the System open market account, that no emergency existed at the present time, that, therefore, the executive committee was without authority to increase the System portfolio, and that, aside from the question of authority, the present market situation did not justify an increase, particularly in view of the feeling that a

3/23/37

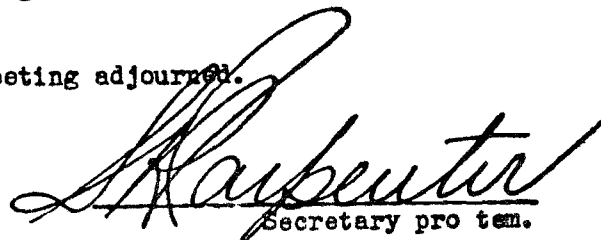
-4-

further increase in excess reserves of member banks might give added impetus to existing inflationary tendencies.

There followed a discussion of the question whether it would be desirable to have a meeting of the full Committee for the purpose of reconsidering the question of a change in the total amount of securities in the System account and it was agreed that Mr. Ransom should advise the Chairman by telephone this afternoon that the committee had discussed his suggestion, was in agreement that under existing circumstances it had no authority to increase the System portfolio and in addition felt that existing conditions did not justify an increase, and that, if the Chairman felt that action should be taken, the committee was of the opinion that a meeting of the Federal Open Market Committee should be called to consider the matter, although it was believed that because of the publicity that would result a meeting should not be held at this time in the absence of a clear necessity therefor.

Reference was then made to a draft of a statement prepared by Messrs. Goldenweiser and Thurston which could be issued to the press in the event of an increase in the System portfolio, and it was agreed that consideration of the statement should be deferred until such time as it appeared that a need for issuing the statement might arise.

Thereupon the meeting adjourned.


Secretary pro tem.

Approved:


Chairman pro tem.