

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

5/4/37

-2-

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.

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

In accordance with this action Mr. Harrison appointed Messrs. Ransom, Davis and Sinclair as members of the committee.

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.

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.

5/4/37

-3-

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

5/4/37

-4-

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

5/4/37

-5-

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

5/4/37

-6-

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

5/4/37


-7-

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.

Approved:


Chairman.
Secretary.