

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 Monday, December 21, 1936, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman
 Mr. Szymczak
 Mr. Broderick (as alternate for Mr. Ransom)
 Mr. Harrison
 Mr. Fleming

Mr. Morrill, Secretary
 Mr. Goldenweiser, Economist
 Mr. Dreibelbis, Assistant General Counsel
 Mr. Burgess, Manager of the System Open
 Market Account
 Mr. Carpenter, Assistant Secretary of the
 Board of Governors

Upon motion duly made and seconded, the minutes of the meetings of the executive committee held in Washington on the morning of November 19, 1936, and the afternoon of November 20, 1936, were approved unanimously.

Mr. Burgess, as Manager of the System Open Market Account, discussed briefly the transactions conducted by the Federal Reserve Bank of New York in the account since the last meeting of the executive committee and outlined the effect of such transactions on the maturity distribution of the securities in the account and the average rate of return on such securities. He also stated that the details were now being worked out for putting into effect the reallocation among the Federal reserve banks of securities in the account as of January 1, 1937, and the revised accounting procedure for the System Open Market Account which was discussed at the meeting of the Federal Open Market Committee on November 20, 1936.

Upon motion duly made and seconded, it was voted unanimously to approve, ratify and confirm all of the transactions effected by the New York bank in the system account since the previous meeting of the executive committee, as set forth in the reports submitted by the bank.

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Reference was made to the fact that on the afternoon of December 4, 1936, at the request of Chairman Eccles, the members of the executive committee were communicated with concerning the desirability of granting authority to the Federal Reserve Bank of New York to acquire longer-term Government securities in place of the securities in the System Open Market Account maturing on December 15, 1936 and February 15, 1937, and all agreed that the bank should be given authority to make shifts in the System Open Market Account totaling \$177,000,000 by sale in the market of December 15 and February 15 maturities of notes in the account and the purchase of \$75,000,000 of bonds to be issued in connection with December 15 financing, \$75,000,000 of notes having maturities as near five years as market conditions warrant, and \$27,000,000 of bonds of any maturity, this authority being in addition to the authority granted to the bank by the executive committee on November 20, 1936. Advice of this authority was communicated to the New York bank by telegraph on December 5, 1936, by Mr. Morrill, Secretary of the Federal Open Market Committee.

Upon motion duly made and seconded, it was voted unanimously to approve, ratify and confirm the informal action of the members of the Executive Committee authorizing the Federal Reserve Bank of New York to effect the transactions above referred to.

It was pointed out that the authority granted to the Federal Reserve Bank of New York at the last meeting of the executive committee to replace maturing securities and make shifts in maturities of securities held in the System Open Market Account was to run only until the next meeting of the executive committee and that, therefore, it would be necessary at this meeting to give the Federal Reserve Bank of New York further directions with respect to transactions in the account.

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Upon motion duly made and seconded, and by unanimous vote, the executive committee directed the Federal Reserve Bank of New York, until the next meeting of the executive committee, superseding all previous authorizations, (1) to replace maturing securities in the System Open Market Account by purchases of like amounts of bills or of notes maturing within two years, (2) to make such shifts of securities in the account as may be necessary in the proper administration of the account, up to an aggregate of \$50,000,000, into other Government securities having maturities within a range of one year from those of the securities sold, (3) to make such other shifts (which may be accomplished when desirable through replacement of maturing securities) of securities in the account as may be necessary in the proper administration of the account, up to an aggregate of \$50,000,000 into other Government securities having maturities which are not within a range of one year from those of the securities sold, (4) upon approval by a majority of the members of the executive committee, which might be obtained by telephone, telegraph or mail, to make such other shifts as might be found to be desirable and advisable within the limits of the authority granted to the executive committee by the Federal Open Market Committee, and (5) to permit such fluctuations, up to a limit at any one time of \$25,000,000, in the amount of holdings of Government securities in the System Open Market Account between weekly statement dates as may be desirable for the practical administration of the account in making shifts between and replacement of securities pursuant to the authority granted by the executive committee.

Chairman Eccles stated that the meeting of the executive committee had been called to provide an opportunity for the members to discuss with the Secretary of the Treasury the relations between the Treasury and the Reserve System in their operations in government securities. Chairman Eccles reviewed briefly the history of these relations, and particularly the informal understandings with the Treasury which had been reached in July and later in October to the effect that purchases of government bonds

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made during periods of weakness in the market would be equally divided between the System Open Market Account and funds available for investment by the Treasury, it being understood that if for any reason it was thought to be undesirable for the System account to take any part or all of its half of the securities purchased on a given day the Treasury would be willing to take them up to the entire amount.

There ensued a general discussion of the responsibilities of the Reserve System and the Treasury with respect to the market, during the course of which it was brought out that, in addition to its operations to serve general credit policy, the Reserve System had some responsibility for the maintenance of an orderly money market, and that in recent years the government security market had become so large a part of the money market that the general responsibility for the money market involves some measure of responsibility for avoiding disorderly conditions in the government security market, either on the up or down side. The view was expressed that it is the duty of the reserve system to determine at any period of weakness whether the market is sufficiently disorderly to justify intervention from this broad standpoint, and that at times of disturbing weakness when intervention is justified it would appear desirable to consult with the Treasury, indicating the intention of the committee to operate in the market and its willingness (a) to make all necessary purchases itself, (b) to operate 50/50 with the Treasury, or (c) to keep out of the market entirely in case the Treasury expresses a desire to make all purchases itself in order to employ funds which may be on hand for investment. There was general agreement to these

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principles.


At the conclusion of this discussion the meeting was adjourned and the members of the committee went to the offices of the Secretary of the Treasury.

The Chairman submitted for the record the following report of the discussion:

The members of the executive committee met with the Secretary of the Treasury and a number of his associates and reviewed the discussion they had just held. There was no disagreement on these principles. The Secretary called attention to the fact that, in dealing with the market, action often has to be taken immediately, and asked whether the manager of the System Account would always have adequate authority from the System to operate promptly at periods of undue disturbance. Chairman Eccles answered that authority up to \$50,000,000 was available, and that more could be obtained promptly when necessary. After considerable discussion there was general agreement that in all cases of market weakness sufficient to justify Federal Reserve intervention the manager of the System account would be prepared to act with the Treasury promptly up to the amount of the authorities granted from time to time; that, in case the manager of the account indicates to the Treasury that the situation is not such as to call for Federal Reserve action, the Treasury will be free to go ahead on its own account and may, if it wishes, ask for a further discussion with members of the executive committee. It was understood that this whole procedure would be subject to change whenever advisable.

Approved:


Chairman.


Secretary.