

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 Thursday, March 19, 1936, at 10:45 a. m.

PRESENT: Mr. Eccles  
Mr. Broderick  
Mr. Szymczak  
Mr. McKee  
Mr. Ransom  
Mr. Harrison  
Mr. Fleming  
Mr. McKinney  
Mr. Hamilton

Mr. Morrill, Secretary  
Mr. Wyatt, General Counsel

There was some further discussion of the proposed regulation of the Federal Open Market Committee with regard to open market operations of the Federal reserve banks.

At the conclusion of the discussion, upon motion duly made and seconded, and by unanimous vote, a regulation was approved and adopted in the following form:

"SECTION 1.

"Pursuant to the authority conferred upon it by section 12A of the Federal Reserve Act, as amended, the Federal Open Market Committee prescribes the following regulations relating to the open-market transactions of the Federal Reserve banks.

"The Federal Open Market Committee expressly reserves the right to alter, amend, or repeal this regulation in whole or in part at any time.

"SECTION 2. DEFINITIONS

"(a) Government securities. - The term 'Government securities' shall include bonds, notes, certificates of indebtedness, Treasury bills, and other obligations of the United States, including obligations fully guaranteed as to principal and interest by the United States.

"(b) Obligations. - The term 'obligations' shall include all bankers' acceptances, bills of exchange, cable transfers, bonds, notes, warrants, debentures, and other obligations, including Government securities, which Federal Reserve banks are authorized by law to purchase in the open market.

"(c) System open market account. - The term 'system open market account' applies to Government securities and other obligations heretofore or hereafter purchased in accordance with open market policies adopted by the Committee and held for the account of the Federal Reserve banks.

"(d) Committee. - The term 'Committee' shall mean the Federal Open Market Committee.

"(e) Executive committee. - The term 'Executive Committee' shall mean the executive committee of the Federal Open Market Committee.

### "SECTION 3. GOVERNING PRINCIPLES

"By the terms of section 12A of the Federal Reserve Act, as amended, the time, character, and volume of all purchases and sales in the open market by Federal Reserve banks shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country.

### "SECTION 4. FEDERAL OPEN MARKET COMMITTEE

"(a) Functions. - The Committee shall consider the needs of commerce, industry and agriculture, the general credit situation of the country, and other matters having a bearing thereon and consider, adopt, and transmit to the several Federal Reserve banks, regulations and directions with respect to the open-market operations of such banks under section 14 of the Federal Reserve Act.

"(b) Participation in System Open Market Account. - The Committee from time to time shall determine the principles which shall govern the allocation among the several Federal Reserve banks of Government securities and other obligations held in the System Open Market Account, with a view to meeting the changing needs of the Federal Reserve banks.

### "SECTION 5. EXECUTIVE COMMITTEE

"(a) Organization. - The Committee, at its first meeting after March 1 in each calendar year, shall select from its own members an executive committee consisting of five members.

"(b) Functions. - It shall be the duty of the Executive Committee:

"1. To direct the execution of transactions in the open market in accordance with the open-market policies adopted by the Federal Open Market Committee;

"2. To allocate the Government securities and other obligations held in the System Open Market Account among the several Federal Reserve banks in accordance with the principles determined by the Federal Open Market Committee;

"3. To keep the members of the Federal Open Market Committee informed of all transactions executed under the direction of the Federal Open Market Committee and of all allocations and reallocations of Government securities and other obligations held in the System Open Market Account; and

"4. To perform such other functions and duties in connection with open-market operations as may be assigned to it from time to time by the Federal Open Market Committee.

#### "SECTION 6. CONDUCT OF OPEN MARKET OPERATIONS

"Each Federal Reserve bank shall engage in open-market operations under section 14 of the Federal Reserve Act only in accordance with this regulation and the directions issued by the Committee from time to time, and no Federal Reserve bank shall decline to engage in open-market operations as directed by the Committee.

"Transactions for the System Open Market Account shall be executed by a Federal Reserve bank selected by the Committee. Each Federal Reserve bank shall make available to the Federal Reserve bank selected by the Committee such funds as may be necessary to conduct and effectuate such transactions.

#### "SECTION 7. PURCHASES AND SALES OF GOVERNMENT SECURITIES

"No Federal Reserve bank shall purchase or sell Government securities except pursuant to authority granted by the Committee or in accordance with an open market policy adopted by the Committee and in effect at the time.

"The Committee reserves the right, in its discretion, to require the sale of any Government securities now held or hereafter purchased by an individual Federal Reserve bank or to require that such securities be transferred into the System Open Market Account in accordance with such directions as the Committee may make.

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"SECTION 8. OTHER OPEN MARKET OPERATIONS

"Subject to directions of the Committee and the following conditions, each Federal Reserve bank may engage in open-market operations other than the purchase or sale of Government securities:

"(1) All such transactions shall be reported daily to the Secretary of the Committee on the day they take place.

"(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System may be purchased and the rates of discount shall be established in accordance with the provisions of section 14(d) of the Federal Reserve Act: Provided, further, That no obligations payable in foreign currency shall be purchased except in accordance with directions of the Committee.

"(3) Only bills, notes, revenue bonds and warrants of States, counties, districts, political subdivisions or municipalities which are of the kinds made eligible for purchase under the provisions of Regulation E of the Board of Governors of the Federal Reserve System may be purchased.

"(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee; Provided, That Federal Reserve banks may purchase and sell cable transfers through the Habana agency in accordance with the resolutions or regulations of the Board of Governors of the Federal Reserve System governing the operations of such agency."

President Harrison referred to section 7 of the regulation and stated that, while he felt that the form in which the section had been adopted was proper for the purposes of the regulation, he had expected that the Committee would consider and act upon a proposal that authority be granted by the Committee under which, in an emergency, any Federal reserve bank might purchase Government securities when necessary to afford relief in a situation involving specific banking institutions in its district, or, after obtaining the consent of the Federal Open

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Market Committee, might purchase or sell Government securities for its own account, all such purchases and sales to be reported promptly to the Federal Open Market Committee and its executive committee.

President Harrison moved that the question of granting such authority be taken up for action at this meeting. Mr. Harrison's motion was seconded by Mr. McKee.

After discussion of questions as to the necessity for taking action at this meeting and as to when and in what circumstances situations might arise prior to the next meeting of the Committee which would necessitate such authority in the meantime, the motion was put by the Chair and lost, Messrs. Eccles, Szymczak, Fleming, McKinney, and Hamilton voting "no" for the reason that they felt that the matter required further study and they, therefore, favored deferring action on the matter until the next meeting of the Committee. Messrs. McKee and Ransom stated that their votes were not to be understood as favorable to the granting of the authority as proposed but were solely in order that the subject might be brought up for discussion at this time.

Chairman Eccles referred to the fact that the Federal Open Market Committee had not selected the members of the executive committee.

Upon motions duly made and seconded, and by unanimous votes, Messrs. Eccles, Szymczak, Ransom, Harrison and Fleming were selected as members of the executive committee.

Upon motions duly made and seconded, and by unanimous votes, the Committee selected Messrs. Broderick, Morrison, and McKee as alternates to serve, in the order named, in the absence of Mr. Eccles, Mr. Szymczak, or Mr. Ransom, and Messrs. Hamilton and McKinney were selected as alternates to serve, in the order named, in the absence of Mr. Harrison or Mr. Fleming.

At this point Mr. E. A. Goldenweiser, Economist for the Committee,

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and Mr. W. R. Burgess, Vice President of the Federal Reserve Bank of New York, joined the meeting.

Upon motion duly made and seconded, and by unanimous vote, the open market operations that had taken place from March 1, 1936, to date were taken up for consideration.

Thereupon, Mr. Burgess submitted a written report of open market operations from March 1 to March 16, 1936, inclusive, and called attention to various features of the report and exhibits attached thereto which he discussed briefly. He called particular attention to the formula (the ratio of expenses, dividends and charge offs of each bank to the total for all banks) upon the basis of which holdings of Government securities had been allocated to the various Federal reserve banks and to a possible substitute for that formula as set out in the exhibit "H" attached to the report, pointing out that departures from the existing formula had been necessary as shown by actual holdings of the respective Federal reserve banks. During the course of the discussion it was understood that Mr. Burgess would supplement his written report so as to bring it down to date.

Upon motion duly made and seconded, the Committee agreed, by unanimous vote, to continue in effect, pending further consideration and action by the Committee, the formula adopted by the Federal Open Market Committee as constituted prior to March 1, 1936, and the practice followed under its authority, with respect to allotments to the various Federal reserve banks of Government securities held in the System open market account, and to request the executive committee to consider the matter and submit at

the next meeting of the full Committee a recommendation as to whether this formula should be retained and, if not, what formula should be adopted.

It was understood that this action included authority on the part of the executive committee to continue to make readjustments in the holdings among the individual Federal reserve banks in accordance with the practice which was followed under the formula and authority of the Federal Open Market Committee as constituted prior to March 1, 1936.

Upon motion duly made and seconded, it was unanimously agreed that the Secretary of the Committee should send to each member of the Committee a copy of the minutes of each meeting of the Committee and of the executive committee, and also that he should furnish to members of the official staff of the full committee and the executive committee copies of such minutes, with the exception that copies of minutes of executive sessions of the Committee and executive committee should be sent only to members of the Committee.

In this connection, it was understood that the Secretary should follow the practice which had prevailed in connection with the proceedings of the former Federal Open Market Committee of furnishing each member of the Committee in attendance upon a meeting of the Federal Open Market Committee or executive committee with a preliminary draft of the minutes of such meeting for the purpose of enabling him to suggest such changes as may be desirable in the interest of accuracy prior to final approval of the minutes at the next meeting.

Upon motion duly made and seconded, and by unanimous vote, the Committee ratified all transactions for the System open market account, and all open market transactions by individual Federal reserve banks for their individual accounts, which had taken place during the period from March 1 to March 19, 1936, inclusive; the transactions thus ratified which involve Government securities for the System open market account being set forth in reports filed with the Secretary of the Federal Open Market Committee by Vice President Burgess of the Federal

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Reserve Bank of New York and the other transactions thus ratified being set forth in reports made by the individual Federal reserve banks to the Board of Governors of the Federal Reserve System.

The meeting recessed and reconvened at 2:50 p. m., with the same attendance as at the morning session, including Messrs. Goldenweiser and Burgess.

Upon motion duly made and seconded, it was unanimously agreed to invite Mr. Elliott Thurston, Special Assistant to the Chairman of the Board of Governors of the Federal Reserve System, to attend this meeting.

In accordance with this action, Mr. Thurston joined the meeting at this point.

Upon the suggestion of Chairman Eccles, Mr. Goldenweiser made a brief resume of the general business and credit situation. He stated that so far as business was concerned there had been a slight recession from the high point of December. In this connection, he pointed out that under a change in practice in the automobile industry new models had been put out earlier than had been customary, with the result that the index figures indicated a greater recession than was actually true if due allowance were made for this change. He added that the general tone of business seemed to be about the same as in December, but that very recently there had been some improvement. He suggested that building construction was the most important single item that should be watched at this time, and that building was recovering, but rather slowly.

He also stated that there had been no growth in commercial loans

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of banks and little growth in security loans although there had been an increase in recent months in the amount of investments by banks, chiefly in Government securities, and a corresponding growth in deposits. He stated further that adjusted demand deposits were higher than at any time in the history of the country but that total bank deposits, including Government deposits and time and savings deposits, but excluding inter-bank deposits, were still substantially below the peak. In answer to a question he stated that the deposits of mutual savings banks were not included in this comparison. He commented that, although deposits were approaching the peak, industrial activity was still from 20% to 25% below the peak, and that excess reserves had decreased to about \$2,400,000,000 as the result of recent Treasury financing operations. He stated that gold imports had ceased, and that the best information available indicated that they were not likely to be large within the next few months so that apparently there would be no material increase in excess reserves from that source. He thought, however, that there would be a gradual increase in excess reserves, as the Treasury expended its funds, in the course of the next several weeks, to somewhere around \$3,000,000,000, but probably not above that amount.

During a discussion of the instructions to be given to the executive committee with regard to the administration of the System open market account pending another meeting of the full Committee, it was agreed that the committee should have such authority as may be necessary

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in the proper administration of the System account to enable it to replace maturing securities and to make shifts in maturities to meet changing market conditions. It was also agreed that the executive committee should have some limited authority for shifts in the account from shorter maturities to Government bonds.

Accordingly, upon motion duly made and seconded the committee, by unanimous vote, instructed the executive committee to direct the replacement of maturing securities in the System 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 be not over \$350,000,000. It was understood that the authority granted to the executive committee by the above action would continue only until the next meeting of the Federal Open Market Committee.

It was also the consensus of the members present that the executive committee should have authority to buy or sell (which would include authority to allow maturities to run off) securities for the System open market account within reasonable limits as to amount, in order that the Committee might be in a position to act promptly if circumstances not now foreseen should make such action desirable before a further meeting of the full Committee.

Accordingly, upon motion duly made and seconded the executive committee, by unanimous vote, was authorized, subject to telegraphic or written approval by a majority of the members of the Federal Open Market Committee, to direct the

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purchase or sale of Government securities for the System open market account up to an aggregate amount of \$250,000,000.

Upon motion duly made and seconded, authority was granted, by unanimous vote, to each individual Federal reserve bank holding Government securities in its own portfolio to replace maturing securities in such account, and, with the approval of the executive committee, to make shifts between maturities in the account, provided that no change in the total amount of Government securities held by the Federal reserve bank was effected by such transactions.

It was pointed out that the authority granted to the Federal reserve banks by the action last referred to above corresponded to that granted to the executive committee in connection with the administration of the System open market account and was necessary for the same reasons.

President Harrison pointed out that in the past Regulation "M" covering open market operations by the Federal reserve banks had provided that no obligations payable in foreign currencies shall be purchased without the consent of the Federal Reserve Board. He said that the Federal Reserve Bank of New York for many years had held for the account of the Federal reserve banks certain balances, particularly in the Bank of England, the Bank for International Settlements, and the Bank of France; and that the balances held with these banks had been invested to some extent in bills. He pointed out that in these circumstances authority should be granted by the Committee to enable the Federal reserve banks to purchase bills which are payable in foreign currencies to replace as they mature the bills now held by foreign central banks for the account of

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the Federal reserve banks so as to maintain the existing portfolio. He also pointed out that the balances originally held in the Bank of England, the Bank of France and the Bank for International Settlements had been greatly reduced and stated that he believed that in the course of time the amount held in the account with the Bank for International Settlements could be substantially further reduced.

In accordance with President Harrison's suggestion, upon motion duly made and seconded, the Committee, by unanimous vote, authorized the Federal Reserve Bank of New York to direct the purchase of bills payable in foreign currencies in such amounts as may be necessary to replace maturing bills now held for the account of Federal reserve banks by foreign central banks, including the Bank for International Settlements.

President Harrison pointed out that the regulation adopted by the Federal Open Market Committee requires the executive committee to keep the full Committee informed of all transactions executed under the direction of the full Committee and stated that it had been the practice in the past to send to all Federal reserve banks weekly reports of operations in the System open market account.

After a discussion it was agreed as the sense of the meeting that the existing practice in this regard should be continued without change.

It was also agreed as the sense of the meeting that any member of the Federal Open Market Committee representing the Federal reserve banks should have the privilege of reporting to the boards of directors of the banks participating in his election that a meeting of the Committee had been held, that the Committee had adopted regulations and by-laws, and that

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the Committee had selected the organization which had been set up. It was agreed that there should be no report of the discussions or the positions taken by the individual members of the Committee in such discussions.

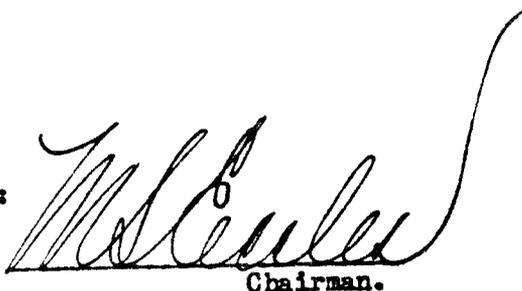
It was also understood that a copy of the by-laws would be sent by the Secretary to the president of each Federal reserve bank with the advice that the by-laws might be read at the next meeting of the board of directors of the bank subject to an understanding on the part of the directors that they should be treated as confidential.

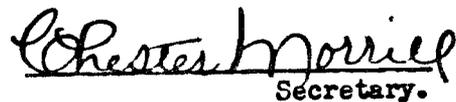
The Committee noted the receipt of a letter dated March 12 to the Committee from President Hamilton of the Federal Reserve Bank of Kansas City in regard to certain purchases of Government securities from the Federal Land Bank of Omaha under repurchase agreements and instructed the Secretary to furnish copies to all members of the Committee and to place the matter on the program for consideration at the next meeting.

It was agreed as the sense of the meeting that the next meeting of the Federal Open Market Committee should be held on April 30, with the understanding that this would not prevent the calling of an earlier meeting.

Thereupon the meeting adjourned.

Approved:

  
Chairman.

  
Secretary.