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 Saturday, April 3, 1937, at 10:15 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Harrison, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis
Mr. Sinclair
Mr. McKinney
Mr. Martin
Mr. Peyton (alternate for Mr. Day)

Mr. Morrill, Secretary
Mr. Goldenweiser, Economist
Mr. Williams, Associate Economist
Mr. Wyatt, General Counsel
Mr. Dreibelbis, Assistant General Counsel
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

It was stated that in response to the call for this meeting on April 1, Mr. Day had advised that it would not be possible for him to attend and that, accordingly, arrangements had been made for the attendance of Mr. Peyton as alternate for Mr. Day.

Mr. Eccles read the following draft of a proposed statement for the press:

"Developments which have recently manifested themselves in the capital markets threaten to affect adversely the orderly progress of economic recovery. In order to counteract these developments, the Treasury and the Federal Reserve

"System have decided upon the following course of action, effective as of Monday, April 5:

1. The Treasury will deposit with the Federal Reserve banks $400,000,000 of gold certificates, issued against gold which has been held inactive. This action is taken in conformity with the policy of the Treasury with respect to acquisitions of gold, announced by the Secretary of the Treasury on December 22, 1936, after conferring with the Board of Governors of the Federal Reserve System.

2. The Federal Reserve System will increase its holdings of United States Government securities through open market operations.

"The purpose of the combined action is to maintain an orderly capital market which is essential for the restoration of full employment, and for the effective utilization of the country's productive resources."

He stated that during a conference this week with the Secretary of the Treasury the latter had expressed the opinion that some action should be taken to meet the current conditions in the Government securities market and that a statement should be issued to the press regarding the action determined upon. Chairman Eccles said that on yesterday evening, with Messrs. Goldenweiser and Thurston, he had attended a conference with the Secretary of the Treasury at which Messrs. Wayne C. Taylor, Assistant Secretary of the Treasury, D. W. Bell, Acting Director of the Budget, George C. Haas, Director of Research and Statistics of the Treasury, and H. E. Gaston, Assistant to the Secretary, were also present, that the draft of statement set forth above was the result of that conference and was satisfactory to the Secretary of the Treasury, and that, in the circumstances, he (Chairman Eccles) would be willing to proceed in accordance with the statement.

Mr. Harrison inquired whether the statement was to be interpreted as a suggestion or as a request from the Secretary of the Treasury to the Federal Open Market Committee. Chairman Eccles replied that it was a suggestion made in an effort to determine upon a policy which might be acceptable to all concerned. He also said that the Secretary of the Treasury would like to have the Committee reach a decision on the matter as soon as possible today.

Mr. Harrison suggested that it was important to decide what was to be given consideration first at this meeting; that is, whether the Committee would first consider a recommendation of a program from the Secretary of the Treasury or whether it would follow its usual procedure and consider what action should be taken by the Federal Open Market Committee in view of existing conditions.

Chairman Eccles said that the statement was not a recommendation from the Secretary of the Treasury but something which was agreeable to him and which was prepared with the understanding that it would be presented by Chairman Eccles for consideration and decision by the Federal Open Market Committee. Chairman Eccles then read a draft of a statement, which had been prepared by the Secretary of the Treasury before the statement above quoted was prepared, as follows:

> "The Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System announce the following actions:
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> (a) The Secretary of the Treasury is transferring to the Treasury's account with the Federal Reserve banks $500 millions of gold certificates against free gold now carried in the Working Balance and in the Inactive Gold Account of the Treasury. Gold certificates will also be issued against further new acquisitions of gold. This action is taken in conformity with the Secretary's statement of December 22, 1936, which declared that 'the Secretary of the Treasury, after conferring with the Board of Governors of the Federal Reserve System, announced that he proposes whenever it is deemed advisable and in the public interest to do so, to take appropriate action with respect to net additional acquisitions or releases of gold by the Treasury Department.'

"(b) The Open-Market Committee of the Federal Reserve banks, beginning Monday, April 5, will make open-market purchases of Treasury securities for the account of the Reserve banks in such amounts and at such times as may be desirable."

The Chairman said that the Secretary had stated that the proposed deposit of gold certificates with the Federal reserve banks was not intended as a discontinuance of the policy announced in December of currently sterilizing gold imports and that he had expressly stated that further gold imports would continue to be sterilized. Chairman Eccles also said that the Secretary had been insistent upon depositing at least $500,000,000 of gold and finally agreed to reduce the amount to $400,000,000; that the Secretary had expressed a willingness to again sterilize that amount of gold after May 1, 1937, when conditions warranted such action; that he proposed the action for the purpose of letting the market know that the Treasury intended to do what it could to prevent a disorderly market; that he felt that the Federal Reserve System had permitted a disorderly market to develop without taking adequate preventive steps; and that if joint action could not be agreed upon by the Federal Reserve System and the Treasury the latter would take independent action.

Chairman Eccles referred to the decision reached by the executive committee at its meeting on March 22-23, 1937, that no emergency existed and that, therefore, the committee had no authority to increase the amount of securities held in the System portfolio. Mr. McKee stated that, although he was a member of the executive committee, he had not been present at the meeting of the full Committee on March 15, 1937, at which time the executive committee was authorized to increase or decrease the System portfolio by not more than $250,000,000 in the event of an emergency, and he inquired whether any member of the full Committee, who was present at the time the action referred to above was taken, believed that the executive committee, in deciding at its meeting on March 22-23 not to increase the System portfolio, had misinterpreted the authority granted to it by the full Committee on March 15. During the discussion which ensued in connection with Mr. McKee's inquiry, it appeared to be the judgment of the members of the Committee, with the exception of Chairman Eccles, that at no time prior to this meeting had an emergency existed which would have justified the executive committee, without further action by the full Committee, in increasing the System portfolio. Chairman Eccles said he felt that the precipitous decline in the prices of Government securities was not at all justified, and that the situation had reached a point where the System during this week should have purchased securities and should have stated to the public that the action was being taken to prevent a disorderly market. He expressed the opinion that such action would have been in accordance with the statements issued by the Board when the increases in reserve requirements were announced.

Mr. Ransom referred to the fact that he had been in constant touch with the Treasury Department during the entire time of Chairman Eccles' absence and that during his conversations over the telephone with Secretary Morgenthau and Mr. Taylor no intimation was given that the Treasury was disturbed about action or lack of action by the Board or the Committee.

In response to a request for an analysis of the present market situation, Mr. Burgess stated that it had appeared that the market might stabilize at a rate of approximately 2 3/4%, but that the market had been disturbed by various statements emanating from Washington, and that the market was particularly sensitive. He referred to the long period during which prices of Government securities were advancing and stated that during this period a substantial speculative position had been created which was now being liquidated, and that banks and certain other institutional investors had been selling to realize profits on securities held. He pointed out that the strong market for Government securities had been based on (1) a low rate of business activity and (2) a large volume of available funds; but that the publicity with respect to the possibility of inflation, labor troubles, etc., as well as the budget situation, had reacted adversely on the market.

Inquiry was made by Mr. McKee whether, if the market should show such strength as the result of any action taken in the open market by the System or by the Treasury as would result in an increase in market quotations for Government securities, the higher prices would attract additional selling and, therefore, have an effect directly contrary to that desired. There was a discussion of this point as well as the question how far the market might be expected to go before there was a stabilization of the present movement. Mr. Burgess stated that there had been considerable talk in the market recently of a 3% yield for Government bonds, that there was reason to believe that substantial purchases would be made at that level, and that orders were being placed in anticipation of reaching a 3% basis. Mr. Burgess said, however, that he did not feel that the conclusion should be drawn from this that the market would be stabilized at that rate and he expressed the opinion that the fundamental conditions in the market would determine finally the point to which rates would go. He also expressed the opinion that the market situation would depend somewhat on the statements coming from Washington. In response to a further inquiry, Mr. Burgess said that a certain amount of instability in the market was to be expected until after the adjustment of the May 1 increase in reserve requirements.

Chairman Eccles said that banks have been accustomed for a long time to an extremely large amount of excess reserves, that by the action of the Board this excess has been drastically reduced, and that it would take the banks some time to accustom themselves to operating with a smaller amount of excess, as evidenced by the fact that they had sold earning assets rather than reduce their balances with correspondents. He suggested that, in this situation and in view of the fact that the Board had expressly stated that the System would be in position to use open market operations to make current adjustments in the credit situation, the System would be justified in increasing the System portfolio in recognition of the fact that, because of the reluctance of banks to reduce their excess reserves, there had been a larger amount of selling of Government securities than was anticipated when reserve requirements were increased, and that these offerings were coming into the market at a time when the market was already disturbed by other factors and there were practically no buyers. He also pointed out that because of the market situation new capital issues and refunding operations had ceased at a time when recovery was far from being complete and he stated that such a condition was contrary to the purpose of the easy money policy which had been followed by the System and should not be allowed to exist.

In response to an inquiry by Mr. Davis, Chairman Eccles said the Secretary of the Treasury was not suggesting that the System increase the System portfolio by any particular amount or that the System buy bills, notes or bonds, nor was he asking for any commitment in that regard, and, while the Secretary felt that a statement such as that proposed might have such a psychological effect as would render unnecessary operations in any substantial amount, he also felt that it was essential that it be made plain that the System and the Treasury were prepared to take action to whatever extent was necessary to prevent a disorderly market and that to accomplish that purpose it was necessary to make a bold gesture. The deposit of gold certificates by the Treasury, Chairman Eccles said, would be accompanied by the use of trust funds to be invested in Government securities if necessary on the same basis of participation with the Federal Reserve System as had been followed in the past. Chairman Eccles added that the Secretary did not have in mind pegging the market but, as stated in the Secretary's public statement on April 1, to preserve an orderly market which would not be controlled by private interests, and to take off the pressure which the Secretary felt was on the market at the present time because of sales of Government securities by member banks to meet the increase in reserve requirements. Chairman Eccles also stated that the Treasury was not in disagreement with the action taken by the Board in connection with the May 1 increase in reserve requirements but felt that the System had not used the flexible means which it stated would be available for use to meet the temporary adjustment made necessary by the increase.

Mr. Ransom stated that he was of the opinion that at least ten different reasons existed for the recent weakness in the bond market and that he felt that, if the Federal Open Market Committee could use its influence towards preventing disorderly conditions in the market at a time when banks were adjusting themselves to the new reserve requirements, he would favor that action. He felt, however, that there was a feeling on the part of the banks that the country was approaching an inflationary situation and that the most effective way of meeting existing conditions in the market would be through more definite action by the administration toward balancing the budget, meeting the labor situation and other conditions which he thought were reacting adversely on the market. Mr. Ransom also said that he was disturbed by the possibility of any further action by the System being interpreted as inflationary unless correctly explained.

Mr. Peyton said that, so far as his district was concerned, he felt it would be a mistake to issue a statement, as any statement might have an effect exactly contrary to that desired. He preferred that any action in the market should speak for itself, but said, however, he would have no objection to issuing an explanatory statement at the time the weekly report of condition of Federal reserve banks was put out on Thursday, in the event it showed an increase in the System portfolio.

There followed a discussion of the statement submitted by the Chairman at the beginning of the meeting and possible amendments thereto were suggested.

Chairman Eccles stated that he had advised the Secretary of the Treasury that he would inform him today of the decision reached by the Committee, and after that it was proposed to issue a statement to the press as to the action to be taken.

It was suggested by Mr. Harrison that the problem before the Committee was a most important one and that if it were found that a decision could not be reached today the Secretary of the Treasury should withhold until tomorrow his decision as to what action he would take.

Upon inquiry by Chairman Eccles as to Mr. Goldenweiser's understanding of the position of the Secretary of the Treasury, Mr. Goldenweiser stated that he felt the Secretary had made up his mind to act independently in the event the Federal Reserve System did not take action at this time or in the event any action taken was not effective in preventing what he felt was a disorderly market, and that, while he would like to have the cooperation of the System in any action taken, if effective action were not taken he would use the powers of the Treasury to bring about the condition in the market which he felt was necessary. The Secretary regarded the May 1 increase in reserve requirements, Mr. Goldenweiser said, as the sole cause of the present condition of the market and, therefore, felt that the System should enter the market through the purchase of securities. Mr. Goldenweiser stated that he was of the opinion that it would be a mistake for the Federal Reserve System to take no action and thereby be placed in a situation where the Treasury felt forced to act alone. He felt that if such a condition developed it would be difficult if not impossible for the Federal Reserve System to discharge its responsibilities in the field of domestic credit, and that, inasmuch as there was economic justification for action increasing the System portfolio, he felt such action should be taken. He expressed the further opinion that cancellation of the May 1 increase in reserve requirements, in view of the fact that there had been no change in the economic picture since the Board's action of January 30, 1937, which would justify a reversal of policy, would be equivalent to announcing that the Board had made a mistake, which he did not feel was the case, whereas if action were taken through the open market any securities purchased could be sold whenever the situation made such action desirable. In this connection, he pointed out that the cancellation of the May 1 increase in reserve requirements would add approximately $750,000,000 to excess reserves which was probably much more than would be necessary in the present situation, and that if the increase were rescinded in whole or in part it would be practically impossible to use the power again. He thought that action in the open market at this time was likely to be effective for the reason that the motive of realization of profits which had influenced the selling of securities had largely disappeared. He also said that he did not feel that an increase in the portfolio at this time would be inconsistent in any sense with the action of the Board of Governors in increasing reserve requirements but would be in accordance with the statement made by the Board at the time that its action would place the System in a position to influence the credit situation through the open market. It was suggested that one of the reasons for making the increase in reserve requirements effective partly on March 1 and partly on May 1 was to enable the Board to rescind the latter increase if that were found to be desirable. Mr. Goldenweiser said that he felt that the Board had not contemplated that it would reverse its action on the May 1 increase unless there were a fundamental change in the economic picture which would justify a reversal of policy and that the economic situation was fundamentally the same at this time as when the action of January 30 was taken.

Chairman Eccles referred again to the fact that the recent rather precipitous decline in the securities market had resulted in stopping new capital financing and refinancing; expressed the opinion that the situation had gone beyond what was contemplated when the Board acted on the May 1 increase in reserve requirements; and said that he felt that an increase in the portfolio should be made to enable the banks to adjust their position over the period of the increase.

Mr. McKee raised the question whether the rescinding of the May 1 increase in reserve requirements would be regarded as an effective means of meeting the existing market situation and this point was discussed, together with the question whether if the System portfolio were increased the System would be in a position to dispose of securities at a later date. Mr. Harrison asked whether, if action were taken by the System to increase its portfolio, it would be for the purpose only of meeting the views of the Treasury or because of some economic reason which would justify action and he suggested that if for the former reason alone it would be better to let the Treasury take such action as it felt was necessary rather than for the System to take any action not felt to be justified by existing economic conditions.

Mr. Harrison also asked whether the object of the proposed action was to level out the present market trend or to increase security prices and Chairman Eccles said that he felt the market had declined too far and too fast and that if it could be stabilized until after May 1 it would adjust itself. Upon inquiry by Mr. Harrison whether purchases of securities for the System account should be in the form of bonds, notes or bills, Chairman Eccles expressed the opinion that, while the executive committee should not be restricted in that regard, the purchases of bonds should be held down as much as possible.

In response to a request for his comments on the situation, Mr. Williams said he found difficulty in seeing any economic necessity for action at this time. He said action might be rested on the necessity for continued easy money rates but that even if there were some advance in the low rates which had obtained the new rates could not be regarded as high. He felt that in the present situation, if the causes of inflationary tendencies were not corrected, the System should possibly even follow a policy of restraint. He also expressed the feeling that with the increase in prices and business profits a proportionate increase in rates should be expected. The System had been following a policy, he said, of removing undue credit stimulation, and he questioned whether the recovery movement was not going too fast and whether at least a temporary slowing up would not be advisable. He added that, while any action taken for the purpose of stabilizing the securities market would be explained as being for the purpose of preventing a disorderly market, he felt that it might be interpreted as a reversal of the policy followed by the System in reducing excess reserves and as a move to protect the market for Government securities.

Mr. Williams then referred to the action of the Treasury in December in adopting its policy of sterilizing gold imports. He said that he had advised at the time that such action be not taken until after the Board of Governors had increased reserve requirements and that since it now appeared that the Treasury acted too soon in that connection he could see no good reason why the Treasury should not reverse its policy. It was his opinion that any action by the System at this time to increase excess reserves would be embarrassing in the long run, that it would be better not to take any action in that direction and that, without any thought of stopping recovery but in order that it might proceed in an orderly manner, he would favor some gesture of restraint. He added that action at this time should be toward balancing the budget which would be more effective toward stabilizing the bond market than anything else that could be done.

Chairman Eccles said that, while he had agreed as a compromise to the procedure outlined in the statement which he presented at the beginning of the meeting, he was opposed to the Treasury depositing gold certificates and would rather attempt to meet the situation by action through open market operations. He referred to unfavorable factors which had influenced the decline in the market and expressed the opinion that open market operations were justified to cushion the decline resulting from these factors and that it was a responsibility of the System to take the leadership in meeting this problem in the domestic credit picture.

Reference was made by Mr. McKee to the question whether a cancellation of the May 1 increase in reserve requirements would be considered as cooperation with the Treasury in meeting the problem before the Committee and Chairman Eccles replied that the Treasury felt that such action would be too inflexible in the present situation and that open market operations or the deposit of gold certificates by the Treasury would be a more satisfactory way to meet the problem.

Mr. Harrison asked whether, in the event it were decided to increase the portfolio, it was Chairman Eccles' idea that the executive committee should be instructed to buy securities on Monday regardless of the condition of the market, and Chairman Eccles said that even if the market were improved he felt the System should buy some bills in any event and that, if a statement were issued saying that action would be taken to prevent a disorderly market, the amount of securities purchased did not appear to him to be important so long as the action resulted in a stabilized market.

Mr. Ransom reviewed various phases of the situation which he felt should be given consideration and expressed the opinion that the members of the Federal Open Market Committee would be justified in cooperating with the Treasury in an effort to work out a satisfactory solution of the problems under discussion. During Mr. Ransom's statement Chairman Eccles withdrew from the meeting to answer a telephone call from the Secretary of the Treasury.

There followed a discussion of the extent of the effect of the May 1 increase in reserve requirements on the Government securities market and Mr. Goldenweiser stated that, while he was in agreement with Mr. Williams that the general policy of the System should be one of restraint under present circumstances, the System should ease the situation resulting at least in part from the increase in reserve requirements until the member banks have had an opportunity to adjust their position, and that in view of the very large reduction in excess reserves from approximately $3,500,000,000 down to $500,000,000 such a temporary policy over the period of adjustment would be justified.

During the discussion Chairman Eccles reentered the room.

Chairman Eccles said he had talked with the Secretary of the Treasury over the telephone and had said that the question of action to be taken by the Federal Open Market Committee was still under discussion and that it was felt that it would be in the interest of everyone concerned if any decision on the part of the Treasury were deferred until tomorrow in order to afford the Committee ample opportunity to discuss the problem to a conclusion which would still afford time to issue a statement to the press for publication in the Monday morning papers. Chairman Eccles said that the Secretary agreed.

There followed a discussion of possible alternative actions, including the Treasury taking action alone by the deposit of gold certificates, the System taking action through open market operations, and the rescinding of the May 1 increase in reserve requirements.

At 2:30 p.m. the meeting recessed and reconvened at 3:00 p.m. with the same attendance as at the morning session.

Mr. Williams stated that, inasmuch as the Treasury had waited three weeks before reaching a decision that action was necessary, it would be advisable for it to wait a little longer to see if the market would complete a natural adjustment which, if the adjustment were not too drastic, would be the most desirable solution.

The question was raised by Mr. Harrison whether the Secretary of the Treasury would consider a program other than that presented by Chairman Eccles, to which Chairman Eccles replied that he did not know, that the Secretary had expressed the feeling that the time for action by the Federal Reserve System alone had passed, that, while he (Chairman Eccles) had agreed to the program submitted this morning to the Federal Open Market Committee, he felt the Committee should have an opportunity to present alternatives if it so desired.

Mr. Ransom suggested that the executive committee of the Federal Open Market Committee meet with the Secretary for a further discussion of the entire matter in the light of the considerations presented at this meeting with a view to developing a program which could be recommended to the Federal Open Market Committee. It was agreed that the Chairman should ask the Secretary if he would meet with a committee of the Federal Open Market Committee for the purpose stated.

At that point Chairman Eccles left the meeting to answer a telephone call from the Secretary of the Treasury and upon his return stated that the Secretary had agreed to meet with the executive committee. Thereupon it was agreed that Messrs. Goldenweiser, Williams and Burgess also should attend the conference with the Secretary.

Mr. Davis suggested as a means of taking pressure off the money market a reduction in the System buying rate on ninety-day bankers acceptances from 1/2% to 3/8%. Mr. Broderick suggested that a lower discount rate might also be established on fifteen-day advances to member banks secured by Government obligations. The advisability of these actions was discussed briefly.

At 6:00 p.m. Chairman Eccles left the room to answer a telephone call from the Secretary and upon his return said that the Secretary had advised that he would like to see him (Chairman Eccles) before meeting with the executive committee and that he would meet with the executive committee tonight or tomorrow morning.

It was agreed that Chairman Eccles should advise Secretary Morgenthau that no decision had been reached by the Federal Open Market Committee, that it desired to have the executive committee discuss the entire matter with him for the purpose of getting the background of his views, that some of the members felt that no action was necessary at this time other than the continuation of the present policy of preventing a disorderly market, and that the Committee wished to know what action he felt should be taken and what the objectives of that action would be.

Thereupon the meeting adjourned with the understanding that the members of the executive committee would hold themselves in readiness to meet with Secretary Morgenthau and that the full Committee would reconvene tomorrow.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.