

TWENTY-FOURTH ANNUAL REPORT

OF THE

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS
FOR THE YEAR 1937



UNITED STATES OF AMERICA
WASHINGTON: 1938

**RECORD OF POLICY ACTIONS—FEDERAL OPEN
MARKET COMMITTEE**

Following is a copy of the record of actions by the Federal Open Market Committee during the year on questions of policy, required by the last paragraph of section 10 of the Federal Reserve Act, as amended by the Banking Act of 1935, to be kept by the Board of Governors of the Federal Reserve System:

MEETING ON JANUARY 26, 1937

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Broderick, Mr. Szymczak, Mr. McKee, Mr. Ransom, Mr. Davis, Mr. Fleming, Mr. McKinney, Mr. Schaller, Mr. Hamilton.

1. Exchange Directly with Treasury Department of Maturing Government Securities Held in System Open Market Account for New Securities.

It was voted unanimously that, whenever such action appeared to be desirable in the proper administration of the System open market account, maturing Government securities held in the account might be exchanged directly with the Treasury for securities of an issue being offered to the public under terms which permit the tender of the maturing securities in exchange.

The Committee was of the opinion that the provision contained in section 14 (b) of the Federal Reserve Act that bonds, notes and other direct obligations of the United States may be bought or sold without regard to maturities but only in the open market does not prohibit the exchange of maturing Government securities for an equal amount of new securities carrying the conversion privilege, and that, inasmuch as such exchanges would result in saving a substantial amount previously paid as commissions in connection with the purchase and sale of securities which otherwise might be exchanged without such expense and it would be possible thereby to eliminate the accounting problem of the treatment to be given to profits on securities sold and premiums paid on securities purchased in the market, such direct exchanges should be made.

2. Emergency Purchases of Government Securities by Federal Reserve Banks.

It was moved that the following resolution be adopted:

“RESOLVED that, in an emergency, when necessary to afford relief in a situation involving one or more specific banking institutions in its district, any Federal Reserve bank may purchase Government securities for its own account (a) up to and not in excess of \$100,000,000 with the prior consent of the executive committee, or (b) up to and not in excess of \$50,000,000 without the prior consent of the executive committee, if because of the necessity for prompt action it is not possible to obtain such prior consent. All purchases of Government securities by any Federal Reserve bank for its own account shall be reported promptly to the executive committee; and the

executive committee shall promptly notify all members of the Federal Open Market Committee of such purchases. The Federal Open Market Committee reserves the right, and authorizes the executive committee, at any time to require the sale of any Government securities purchased by an individual Federal Reserve bank for its own account, or to require that such securities be transferred to the System Open Market Account, or to reduce the holdings of other Government securities in the System Open Market Account in an equivalent amount."

On this motion the members voted as follows: "aye," Messrs. Harrison, Fleming, Schaller, Hamilton, McKinney, and Broderick; "no," Messrs. Eccles, Szymczak, Ransom, McKee and Davis.

Mr. Broderick then stated that he desired to withdraw his vote, that, while he favored the adoption of the resolution, he believed that motions of this character, if adopted, should prevail by a larger margin than had been indicated in this case, and that, therefore, he wished to be recorded as not voting. Thereupon the motion was declared lost.

The reason advanced for the motion was that it was important that the Federal Reserve System be prepared to act promptly in any emergency which might arise, that there was doubt whether the appropriate machinery was available to take care of a pressing emergency involving individual member or nonmember banks, that on some occasions in the past events had taken place so rapidly that adequate opportunity was not available for committee action of that sort, and therefore that each Federal Reserve bank should be in a position to purchase Government securities when necessary to afford relief in an emergency situation involving one or more specific banking institutions in its district which might arise so rapidly as to require action before the executive committee of the Federal Open Market Committee could consider the matter. The votes against the motion were upon the ground that the Federal Reserve banks, through the exercise of their powers to make loans and resale agreements, had ample authority to deal with specific local situations which might arise without warning; that in all other cases the Reserve banks would have sufficient notice of the development of the situation to bring the matter to the attention of the executive committee of the Federal Open Market Committee for consideration and action; and that, therefore, authority in the Federal Reserve banks to make emergency purchases of Government securities was not necessary.

3. Authority to Replace Maturing Securities and to Make Shifts of Securities in System Open Market Account.

By unanimous vote, the Committee instructed the executive committee to direct the replacement of maturing securities in the System Open Market 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 having maturities in excess of five years be not over \$600,000,000 nor less than \$300,000,000.

This authority was granted for the reason that it was felt that the executive committee should have such authority as might be necessary in the proper administration of the System open market account to enable it to replace maturing securities and to make shifts between maturities in the account, including authority to increase the holdings of bonds with maturities in excess of five years as well as authority to reduce such holdings within certain reasonable limitations, to meet changing market conditions and to improve the distribution of maturities in the account.

4. Authority to Increase or Decrease System Account.

By unanimous vote, the Committee authorized the executive committee, subject to telegraphic or written approval by a majority of the members of the Federal Open Market Committee, to direct that the present amount of Government securities in the System open market account be increased or decreased by not more than \$500,000,000.

The Committee had in view the possibility of a decision by the Board of Governors to make a further increase in requirements as to reserves of member banks, which, if made to the full extent permitted by law, would result in a substantial reduction in excess reserves and, consequently, in less flexibility in the money market, in which circumstances larger open market operations might be necessary. The probability of a substantial net withdrawal of funds from the market over the March 15th tax payment period was also considered, and the Committee was of the opinion that the executive committee should be in a position to take such action with respect to an increase in the System account as might be necessary to offset any undesirable effect that might result from a large withdrawal of funds. It was also agreed that the executive committee should have authority to take such action with respect to an increase or decrease (which would include authority to allow maturities to run off) in the System portfolio as might be necessary to meet unforeseen circumstances.

MEETING ON MARCH 15, 1937

Members present: Mr. Eccles, Chairman; Mr. Harrison, Vice Chairman; Mr. Broderick, Mr. Szymczak, Mr. Ransom, Mr. McKinney, Mr. Martin, Mr. Peyton (alternate for Mr. Day).

1. Authority to Replace Maturing Securities and to Make Shifts of Securities in the System Open Market Account.

By unanimous vote, the Committee instructed the executive committee to direct the replacement of maturing securities in the System open market 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 \$800,000,000 and that the amount of bonds having maturities in excess of five years be not over \$800,000,000 nor less than \$500,000,000.

After a review of business and credit conditions including the condition of the Government securities market, the members agreed that, in