

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

the absence of conditions not then foreseen, an increase in the System portfolio would not be justified, that the executive committee should continue to operate under authority granted by the Federal Open Market Committee to replace maturing securities and to make shifts of securities in the account with a view to preventing a disorderly market, and that for that purpose additional authority should be granted to the executive committee to make such shifts and replacements. It was the consensus that it would be undesirable for the System to continue indefinitely to increase the proportion of bonds held in the System account at as great a rate as had taken place during the preceding week and that if it appeared that the prevention of a disorderly market would justify further shifts in large amounts, beyond the limits set by the action referred to above, it might become advisable to increase the aggregate amount of securities held in the account in order to preserve a desirable ratio of short to long-term securities in the account.

2. Authority to Increase or Decrease System Account.

By unanimous vote, the Committee authorized the executive committee to arrange for an increase or decrease in the amount of securities then in the System open market account by not more than \$250,000,000 in the event of an emergency arising requiring such action before a meeting of the Federal Open Market Committee could be held.

This action was taken in order to enable the executive committee to act promptly in the event unforeseen circumstances should make action desirable before another meeting of the full Committee, with the understanding that in the absence of an emergency the executive committee would act under the authority to replace maturing securities and to make shifts in the account, that on the basis of the then existing situation there was no necessity to resort to the authority to make increases in the System portfolio, and that such action would be resorted to only in the event of the development of new circumstances which, in the judgment of the executive committee, would make necessary an increase in the portfolio.

MEETING ON APRIL 4, 1937

Members 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).

1. Authority to Increase or Decrease System Account.

It was moved that the following resolution be adopted:

"The Federal Open Market Committee directs the executive committee to make such purchases or sales of United States Government securities, beginning April 5, 1937, as may be necessary with a view to preserving an orderly market, but to make purchases of not less than \$25,000,000 during the week beginning April 5, 1937, provided that the present aggregate amount of securities in the System open market account shall not be increased or decreased by more than \$250,000,000 prior to the next meeting of the Federal Open Market Committee. The character and maturities of the

securities acquired or sold shall be determined by the executive committee in the light of current market developments."

A motion to amend the above resolution by striking out the requirement that a minimum amount of securities be purchased during the week beginning April 5, 1937, was lost, Messrs. Harrison, Sinclair and Szymczak voting "aye" and Messrs. Eccles, Broderick, McKee, Ransom, Davis, McKinney, Martin and Peyton voting "no."

The original motion was then put by the chair and carried unanimously.

These motions were made following a review of business and credit conditions, including the reserve position of member banks as it would be influenced by the increase in reserve requirements which was to take effect on May 1, 1937, the developments in the money market and bond market, and particularly the continued weakness in the Government securities market, and a discussion of what, if any action should be taken by the Federal Open Market Committee in the circumstances.

The resolution was adopted in order to enable the executive committee to make open market purchases of United States Government securities for the System account in such amounts and at such times as might be desirable with a view (1) to exerting an influence toward orderly conditions in the money market and (2) to facilitating the orderly adjustment of member banks to the May 1 increase in reserve requirements. The purpose of this resolution was in conformity with the policy announced by the Board of Governors of the Federal Reserve System in its statement on January 30, 1937, which declared, with reference to the increase in reserve requirements, that by that action the System would be placed in a position where such reduction or expansion of member bank reserves as might be deemed to be in the public interest might be effected through open market operations.

The rejection of the motion to amend the resolution was based upon the opinion that a small amount of securities should be purchased during the week to demonstrate that the System was prepared to increase the amount of securities held in the System account as a means of preventing a disorderly market over the period of the adjustment by member banks of their reserves to meet the May 1 increase in reserve requirements.

2. 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 \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

This action was a continuation of similar authority granted to the executive committee for the purpose of enabling the committee to re-

place maturing securities and to make shifts between maturities within certain reasonable limitations. It was felt, however, that inasmuch as the action authorizing the executive committee to increase the amount of securities held in the account contemplated an immediate increase in the account with a view to preserving an orderly market and facilitating the adjustment of member banks to increased reserve requirements, it would be advisable not to authorize the reduction of the amount of securities held with maturities within two years to less than \$1,000,000,000 (the amount of such securities held in the account at the time was in excess of \$1,100,000,000).

MEETING ON MAY 5, 1937

Members 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. 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 \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

This action continued authority previously granted to the executive committee to enable it to replace maturing securities and to make shifts between maturities in the System account, including authority to increase or decrease the holdings of bonds with maturities in excess of five years, within the specified limits, in order to meet changing market conditions and to improve the distribution of maturities in the account.

2. Authority to Increase or Decrease System Account.

By unanimous vote, the Committee directed the executive committee to make purchases and sales (including authority to allow maturities to run off) of United States Government securities for the System open market account to such extent as may be necessary before the adjournment of the next meeting of the Federal Open Market Committee, for the purpose of preventing disorderly market conditions, provided that the aggregate amount of securities held in the account be not increased to an amount exceeding \$2,680,000,000 nor decreased to an amount less than \$2,180,000,000; the kinds and maturities of the securities acquired or sold to be determined in the light of current market developments.

This action was taken in order that the executive committee might continue to have authority to act promptly when conditions warranted the purchase or sale of Government securities for the System open market account for the purpose of preventing disorderly market conditions.

MEETING ON JUNE 9, 1937

Members 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. 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 \$1,000,000,000 and that the amount of bonds having maturities in excess of five years be not over \$850,000,000 nor less than \$500,000,000.

It was agreed that the reasons for the authority granted to the executive committee at the meeting on May 5, 1937, to replace maturing securities and to make shifts between maturities in the System account still applied and that, therefore, such authority should be renewed.

2. Authority to Increase or Decrease System Account.

By unanimous vote, the Committee directed the executive committee to make purchases or sales (including authority to allow maturities to run off without replacement) of United States Government securities for the System open market account to such extent as may be necessary before the adjournment of the next meeting of the Federal Open Market Committee for the purpose of preventing disorderly market conditions, provided that the aggregate amount of securities held in the account be not increased or decreased from the amount now held in the account by more than \$250,000,000; the kinds and maturities of securities acquired or sold to be determined in the light of current market developments.

The reason for this action was the same as that which prompted similar action by the Committee at its meeting on May 5, 1937.

MEETING ON SEPTEMBER 12, 1937

Members 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. Day.

1. Authority to Increase or Decrease System Account and Recommendation that Treasury Be Requested to Desterilize \$300,000,000 of Gold.

The following resolutions were adopted by unanimous vote:

"RESOLVED, that, until the adjournment of the next meeting of the Committee, the executive committee is authorized to direct the purchase in the open market from time to time of sufficient amounts of Treasury bills or other short-term Treasury obligations to provide funds to meet seasonal withdrawals of currency from the banks and