

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 Friday, November 20, 1936, at 9:30 a.m.

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

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

There was a general discussion of questions of policy involved in the administration of the System Open Market Account and the circumstances under which the total holdings of long term bonds in the account should be increased or decreased. It was the consensus of those present that, in view of the large aggregate amount of securities held in the System account, it would be logical in the proper administration of the account to authorize the executive committee, as and when market conditions justify, to increase to \$600,000,000 the amount of bonds with maturities in excess of five years.

The Secretary submitted the minutes of the meetings of the executive committee of the Federal Open Market Committee held on May 25 (2 meetings), May 27, June 24 and September 2, 1936, and upon motion duly made and seconded, and by unanimous

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vote, the actions set forth therein were approved, ratified and confirmed.

The meeting recessed at 11:30 a.m. in order to enable members of the committee to keep an appointment for a conference with the Secretary of the Treasury. The meeting reconvened at 2:00 p.m. with the same attendance as at the morning session.

There was a discussion of the procedure that should be followed in the future in the presentation to the Federal Open Market Committee of the minutes of the meetings of the executive committee for approval and ratification of the actions set forth therein.

Upon motion duly made and seconded, the Secretary was authorized to send the preliminary and revised drafts of the minutes of the meetings of the executive committee to the members of the full Committee who are not members of the executive committee in order that all of the members of the full Committee may be advised of the actions of the executive committee and be prepared at the next succeeding meeting of the full Committee to act on the approval and ratification of such actions as shown by the minutes. On this action Mr. Ransom voted "no", stating that he felt that these preliminary drafts should be approved by the members of the executive committee before being sent to the other members of the full Committee.

In connection with the above matter it was agreed that, whenever in the future a meeting of the executive committee of the Federal Open Market Committee is held in Washington just prior to a meeting of the full Committee, the members of the full Committee who are not members of the executive committee and who are in Washington should be invited to attend the meeting of the executive committee and that, whenever possible, a copy of the minutes of such meeting should be prepared and furnished, prior to the meeting of the full Committee, to members of the Committee who did not attend the meeting of the executive committee.

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The Secretary then read the recommendation approved at the meeting of the executive committee yesterday with respect to authorizing that committee to replace maturing securities and to make shifts between maturities in the System Open Market Account, and it was pointed out that the authority as recommended differed from a similar authority granted at the meeting of the Federal Open Market Committee on May 25, 1936, in that the recommended authority provided for increasing the limit upon the amount of bonds in the account having maturities in excess of five years to \$600,000,000, whereas the previous authority limited to \$500,000,000 the amount of all bonds, without reference to maturities. The reasons for the proposed change, as set forth in the minutes of the meeting of the executive committee on November 19, 1936, were reviewed for the information of the full Committee and it was stated that the replacement of the System's holdings of December 15, 1936, and February 15, 1937, note maturities would afford an opportunity to increase the amount of longer term bonds in the account, which would be a logical step in the distribution of maturities in the account.

President Harrison suggested that it might be found to be desirable at times, in order to exercise an influence toward orderly conditions in the market, to effect small reductions in the amount of bonds held in the account by shifts into corresponding amounts of shorter term securities, and that therefore it might be desirable also to place a limit on the amount of such reductions that might be made by the executive committee.

The discussion of the recommendation of the executive committee indicated general agreement that the proposed authority to the executive

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committee was necessary for the proper administration of the System account to meet changing market conditions.

Accordingly, upon motion duly made and seconded, and 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.

The recommendation of the executive committee with respect to allowing fluctuations in the total holdings of securities in the System account between weekly statement dates was read and it was agreed that the suggestion should be approved because of the fact that it is necessary as a practical matter to make advance purchases in order to obtain replacement securities with proper maturities and that such advance purchases are in such small amounts in relation to the total System holdings as to have no material effect upon the general credit situation.

Upon motion duly made and seconded, and by unanimous vote, the Committee authorized the executive committee to permit such fluctuations, within reasonable limits, 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 replacements of securities pursuant to the general authority granted by the Federal Open Market Committee.

After a reading of the recommendation of the executive committee that it be given authority to increase or decrease the present total amount of securities in the System account by not more than \$250,000,000, it was agreed that the executive committee should have such authority in order

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that it might be in a position to act promptly if circumstances not now foreseen should make such action desirable before another meeting of the full Committee.

Accordingly, upon motion duly made and seconded, and 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 \$250,000,000.

President Harrison stated that at the Presidents' Conference on November 18, 1936, copies of a memorandum, dated November 19, 1936 prepared by the Federal Reserve Bank of New York on the subject of accounting procedure for the System Open Market Account had been furnished to the Presidents of all Federal reserve banks; that the Presidents had agreed in principle with the procedure suggested in the memorandum which includes a change in the method of carrying and distributing profits in general accordance with the previous memorandum dated October 1, 1936, on this subject, which was sent to all members of the Federal Open Market Committee and to all Presidents; that it had been understood that they would discuss the matter with the officers of the Federal reserve banks and advise President Harrison by letter of any suggestions that they might have to make with a view to putting the suggested procedure into effect as of January 1, 1937; and that following receipt of advice from all Presidents the matter would be submitted by President Harrison to the Board of Governors for consideration.

Reference was made to the consideration which had been given by the Board of Governors and the Federal Reserve Bank of New York recently

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to the procedure to be followed in connection with foreign relationships of Federal reserve banks and to the question of the overlapping jurisdiction of the Board and the Federal Open Market Committee with respect to foreign transactions of the Federal reserve banks. President Harrison stated that the latter question had been discussed at the Presidents' Conference on November 18, 1936, and that he had suggested that a desirable arrangement would be one under which the Federal Open Market Committee would grant blanket authority to the Federal reserve banks to purchase and sell bills of exchange and bankers acceptances payable in foreign currencies and cable transfers in connection with accounts of Federal reserve banks established in foreign countries with the approval of the Board of Governors pursuant to the provisions of section 14 of the Federal Reserve Act; it being understood that all such transactions in such accounts are subject to special supervision by the Board of Governors of the Federal Reserve System. The Presidents' Conference, President Harrison said, had expressed agreement with this suggestion. Thereupon President Harrison moved the adoption of the following resolution, and the motion was duly seconded.

"RESOLVED that, unless and until the Federal Open Market Committee hereafter directs otherwise, each Federal Reserve Bank, subject to the provisions of Section 14 of the Federal Reserve Act as amended and the regulations, conditions, and limitations of the Board of Governors prescribed thereunder, may without further directions or authorization of the committee purchase and sell, at home or abroad, cable transfers, and bills of exchange and bankers acceptances payable in foreign currencies, to the extent that such purchases and sales may be deemed to be necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction or discontinuance of accounts of Federal

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"Reserve Banks in foreign countries."

The foregoing resolution was adopted  
by unanimous vote.

A suggestion was offered that a uniform procedure be determined upon for the election of Federal reserve bank representatives as members of the Federal Open Market Committee and the matter was discussed briefly in the light of the various procedures followed in the election of the present Federal reserve bank representatives on the Committee. It was agreed that consideration of the subject should be deferred until the next meeting of the Committee, with the understanding that during the interim Counsel would prepare a draft of a suggested form of procedure, as well as a draft of any clarifying legislation that may be desirable, and that copies of such drafts would be furnished by the Secretary to the members of the Committee in advance of such meeting.

In connection with the proposal submitted by President Harrison at the meeting on March 19, 1936, that authority be granted by the Committee to the Federal reserve banks to purchase Government securities in an emergency, on which action was deferred at the meeting of the Committee on May 25, 1936, President Harrison stated that he still felt strongly that the suggested authority should be granted, but that he would suggest that consideration of the matter be deferred at this time and that prior to the next meeting of the Committee he would prepare a memorandum and a draft of resolution for its consideration. President Harrison's suggestion was approved with the understanding that copies of such memorandum and draft of resolution would be furnished by the Secretary to all members of the Committee as soon as available.

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The Secretary stated that copies of the memorandum prepared by Mr. Dreibelbis, Assistant General Counsel, under date of October 13, 1936, in which the conclusion was set forth that section 12A of the Federal Reserve Act requires that the Federal Open Market Committee shall meet at least four times during each calendar year, had been sent to all members of the Committee with a request that they indicate whether they had any objection to the opinion, and that no objection had been received. All of the members present indicated that the opinion was entirely acceptable to them.

There followed a general discussion of the question of open market policy, including its relation to the existing excess reserves of member banks. Consideration was given particularly to the question whether it would be preferable for the Board of Governors to use its power to further increase reserve requirements, inasmuch as it was understood that excess reserves are fairly generally distributed among member banks and an increase in reserve requirements probably would work no hardship on any substantial number of member banks, or for the Federal Open Market Committee to reduce the total holdings of Government securities in the System Open Market Account, which might be interpreted as a reversal of the present easy money policy. In this connection reference was made, as indicating that the time had not yet arrived for a reversal of policy, to the continuing large amount of unemployment, to the fact that there is still unused productive capacity, and to the relatively low aggregate of national income in the United States, together with the fact that there is no general indication of unhealthy growth in the use of bank credit. Some of the members expressed the opinion that no action should be taken at the present time in the

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direction of either an increase in reserve requirements or a reduction of the System portfolio and that another meeting of the Committee should be held in January when the President's budget message had been sent to Congress, the results of the year-end return flow of currency would be known, the reserve position of the member banks would be subject to closer analysis, and the general credit and monetary situation might be more clarified.

Chairman Eccles suggested that, if the Board or the Committee seriously contemplated taking action in January or February, some indication of the fact that the matter was being given serious consideration should be given out in order that the investing public might be reminded that developments in the money market are being closely watched and that further action would be taken in the field of reserve requirements or in the form of open market operations whenever necessary.

At this point in the discussion Messrs. Schaller and Hamilton left the meeting.

There was also a discussion of the question whether, in the event action should be taken by the Federal Open Market Committee in January to reduce the System portfolio, the action should be in the nature of allowing maturing securities to run off without replacement or whether it would be necessary also to sell securities from the account. It was indicated as the consensus of those present that if a reduction in the portfolio should be made it would be preferable to allow maturities to run off.

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At the conclusion of the discussion it was suggested that the Federal Open Market Committee take the position at this meeting that, after having reviewed the business and credit situation, the Committee is of the opinion that in the present circumstances it is not now advisable to make any change in the System's present credit policy; that the Committee is concerned, however, over the current and potential effects on both the credit and banking situation of the continued increase in the excess reserves of member banks; and that, therefore, it be the sense of the Committee that a meeting of the Committee should be held in January, when the situation will have been further clarified by such events as the return flow of currency and the President's budget message, to consider whether it may not then be advisable to take some action in the open market in the light of the reserve position of member banks at that time.

The position set forth above was approved by all of the members present, with the exception of Mr. McKee, who stated that he believed that, prior to the issuance of any public statement by either the Board or the Federal Open Market Committee that would refer to the possibility of further increase in member bank reserves, action should be taken by the Federal Open Market Committee to reduce its portfolio by allowing maturities to run off or by direct liquidation.

There was a further discussion of the question whether any statement should be given to the press and it was pointed out that it was known to the public that the Federal Advisory Council, the Presidents' Conference and the Federal Open Market Committee had held meetings this week, and that it might be advisable for the Chairman of the Board of Governors to give a statement to the press which should state that the

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Federal Reserve System is considering the problem created by the existing large amounts of excess reserves with a view to taking action at such time as it appears to be necessary in the public interest.

At the conclusion of the discussion, upon motion duly made and seconded, the Chairman was authorized to issue to the press such statement as he deemed advisable.

Thereupon the meeting adjourned.

Robert M. H. ...  
Secretary.

Approved:

W. C. ...  
Chairman.