

TWENTY-THIRD ANNUAL REPORT

OF THE

BOARD OF GOVERNORS

OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS
FOR THE YEAR 1936



UNITED STATES OF AMERICA
WASHINGTON: 1937

MEETING ON NOVEMBER 20, 1936

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. Authority to Make Shifts in System Open Market Account.

The Committee, by unanimous vote, 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 action continued the previous authority of the executive committee to make shifts and replacements necessary for the proper administration of the System account and granted additional authority to increase the holdings of bonds with maturities in excess of five years, as well as authority to reduce such holdings, to meet changing market conditions and to improve the distribution of maturities in the account.

2. Authority to Increase or Decrease System Account.

The Committee, by unanimous vote, 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 amount of Government securities then in the System open market account be increased or decreased by not more than \$250,000,000.

The purpose of this action was to continue previous authority so that the executive committee would be in a position to act in the open market promptly if circumstances not foreseen at this meeting should make such action desirable before another meeting of the full Committee.

3. Transactions in Accounts with Foreign Central Banks.

The Committee, by unanimous vote, adopted the following resolution:

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 Reserve banks in foreign countries.

The purpose of this action was to simplify the procedure in connection with the handling of accounts with foreign central banks which are subject to special supervision by the Board of Governors of the Federal Reserve System under Section 14 of the Federal Reserve Act.

4. Consideration of Excess Reserves of Member Banks.

The Committee took the position that, in the circumstances, it was not then advisable to make any change in the System's existing credit policy; that the Committee was 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 was the sense of the Committee that a meeting of the Committee should be held in January, when the situation would have been further clarified by such events as the return flow of currency and the President's budget message, to consider whether it might 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. This position was approved by all of the members present (Messrs. Schaller and Hamilton having departed prior to this action) with the exception of Mr. McKee who, in the light of a previous discussion with respect to the desirability of issuing a statement to the press, 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 a further increase in member bank reserve requirements, action should be taken by the Federal Open Market Committee to reduce its portfolio by allowing maturities to run off or by direct liquidation.

The reason for this position, which was taken after consideration of the question whether, if action were taken to reduce excess reserves, it would be preferable for the Board of Governors to use its power further to increase reserve requirements or for the Federal Open Market Committee to reduce the holdings of Government securities in the System open market account, was that most of the members of the Committee were of the opinion that the continued large amount of unemployment, unused productive capacity, and relatively low aggregate of national income and the fact that there was no general indication of unhealthy growth in the use of bank credit, indicated that the time for a reversal of the existing easy money policy had not arrived. As pointed out in the statement of position, in January the President's budget message would be sent to Congress, the results of the year-end return flow of currency would be known, the reserve position of member banks would be subject to closer analysis and the general credit and monetary situation might be further clarified.

Upon taking this position, it was voted unanimously to authorize the Chairman to issue a statement to the press, for the reason that it was felt that the investing public should be reminded that the System was considering the problem created by the existing large amount of excess reserves with the view to taking action at such time as it appeared to be necessary in the public interest.

After the meeting, under the authority thus granted to him, the Chairman prepared and gave out the following statement:

The Board of Governors of the Federal Reserve System met during the week with the Federal Advisory Council and later with the Presidents of the Federal Reserve banks. In addition, there was a meeting of the Federal Open Market Committee.

In the course of these meetings, the business and credit situation was fully reviewed. Particular attention was given to the fact that since the Board's action last July in raising reserve requirements, there has been a continued and substantial increase of member bank reserves, resulting principally from a further large inflow of gold from abroad, so that member bank reserves are once more far in excess of legal requirements and of present or prospective needs of commerce, industry and agriculture.

Those charged with responsibility for credit and reserve policy are now giving careful consideration to the various problems raised by the effects of these reserves with a view to taking such action at such time as it appears to be necessary in the public interest.