STATEMENT BY GOVERNOR MARTIN
READ AT MEETING OF OPEN MARKET COMMITTEE
ON DECEMBER 17, 1935

There were approximately $2,400,000,000 of Government bonds belonging to the System when the Open Market Committee ceased purchasing in the Fall of 1933. There has been no increase in the holdings of Governments since then.

In February, 1934, largely as the result of open market purchases of Governments, the excess reserves of member banks were $890,000,000. The excess reserves since that time have increased to the extent of $2,100,000,000, giving total excess reserves of approximately $3,000,000,000.

This increase of $2,100,000,000 in excess reserves is approximately the same as net gold imports for approximately the same period.

Since February 1, 1934, the date of devaluation, the Government has transferred $825,000,000 to the gold certificate fund of the Federal Reserve Board. This next to gold imports has been the largest influence in creating excess reserves. It seems clear then that a large part of the $2,100,000,000 excess reserves is the effect of gold imports.

It would be desirable to find out, if possible, what portion of the gold imports belongs to nationals of foreign countries. If, as it seems probable, the larger portion of this belongs to foreign nationals, then it is on short time deposit in this country or else invested in short maturities and probably to a less extent invested in American securities which have an immediate market on the Exchange. In any event, it would seem that the balance owned by foreign nationals is a demand obligation liable to be withdrawn at any moment. If this is true, then that part of the excess reserves the result of gold imports should not be allowed to become a base for credit extension in this country. The System, by the sale of its $2,400,000,000 of Governments, could prevent these gold imports as excess reserves being used as a basis of credit. However, from what we can learn of the world situation, there seems no immediate danger of the withdrawal of gold, as the United States is the most stable country in the world at present.

The Federal Advisory Council in its consideration of Open Market Operations of November 21, 1935 recommends that the System sell its Governments and says "The controlling reason for this is the indisputable fact that so long as Government bonds are held under the ownership of the System, either the currency of the country or the reserves of member banks, to a corresponding extent, are dependent entirely upon a Government obligation". Under the present existing conditions this "corresponding extent" is not such an extent as to cause any fears as to the soundness of either the currency or reserves of member banks. The fact is that on December 4, 1935, the twelve Federal reserve banks had gold reserves amounting to $7,410,000,000, which less the notes in actual circulation amounting to $3,648,000,000, leaves $3,762,000,000 of gold available for reserve against deposits, which at the same time totalled $6,231,000,000. This means that without disturbing our present holdings of Government securities the System has 100% gold reserves on Federal Reserve Notes and approximately 60% gold reserves against deposits. This certainly would seem a safe situation so far as gold backing is concerned.

It is true that we are feeling some stirrings of recovery and the indexes show improvement, but there is grave question whether these conditions are not still so predicated on artificial stimulants that with a lessening of the stimulants the impetus of recovery will show gradual slacking. After having "primed the pump" it seems foolish to take any chance of retarding the natural flow of the pump. Outside of the stock market, there seems little evidence of business going too fast. That condition, if it is considered wise, can be safeguarded by the raising of margins on stock market collateral and the remedy can be applied at the spot where the swelling is.

It is true that the System having an excess reserve of $3,000,000,000 affords the possibility of a run-away condition, but we should not be fooled by considering a possibility as a probability. Such a possibility will undoubtedly develop into a probability, but the conditions at present do not offer signs of an immediate probability.

In any action taken at the present time there is too great danger of discouraging efforts toward recovery; in fact, the danger of retarding recovery is too great to take the risk of any action not more clearly indicated than at the present time, whether it be the sale or run-off of Governments or the increase of reserve percentages.

One of the hardest things for a soldier under fire is to remain quiet and do nothing until the proper moment for action arrives. By nervousness, resulting in too much movement, although it is a relief to him, he may sacrifice his whole command.

There is a possibility which we feel sure will develop into a probability, but until the fact that it is more probable develops, it would seem that no action, which after all is very important action, should be taken. The time is here for moment by moment vigilance and preparation for immediate action when the signs are more pronounced. There is no difficulty in calling a meeting of the Open Market Committee whenever necessary.