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MINUTES OF THE MEETING OF THE OPEN MARKET POLICY CONFERENCE
HELD AT THE OFFICES OF THE FEDERAL RESERVE BOARD
WASHINGTON, D. C., May 21 and 22, 1930.

333.-c-2
Final minutes
5/21/30

The meeting was called to order by Governor Young at 10:40 a. m.

The following were present:

From the Federal Reserve Board,
Governor Young and Messrs. Cunningham, Hamlin, James,
Miller, Platt, and Pole.
From the Federal Reserve Board's staff,
Messrs. Goldenweiser, McClelland and Smead.
From the Federal Reserve Banks,
Governors Harrison, Norris, Seay, Black, Fancher, Geery,
Martin, Talley and Calkins, and Deputy Governors Burgess
and McKay.

Dr. Goldenweiser presented the facts as to the recent credit situation.

Governor Young asked the Conference to consider whether or not it was desirable to hold a Governors Conference in the near future.

Governor Young reported informally on the discussion of the Federal Advisory Council with the Federal Reserve Board on May 19.

Governor Young reported that the Open Market procedure as amended by the meeting of Governors of the Reserve banks on March 25 had been submitted to all the Reserve banks and that they had all indicated their willingness to participate in accordance with the suggested procedure. The New York bank had accompanied its acceptance with a letter explaining its interpretation of the proposed procedure. A copy of this letter was distributed to the Governors and is attached herewith. In view of the acceptance of the procedure by all Reserve banks which was approved by the Federal Reserve Board, Governor Young indicated that this meeting might be regarded as the first regular meeting of the Open Market Policy Conference.

Governor Young indicated that a number of suggestions had come informally before the Federal Reserve Board from various quarters, including the following:

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1. A sale of securities for the purpose of checking speculation, improving bank earnings, and aiding the liquidation of security loans.

2. A sale of \$200,000,000 of Government securities to bring about an adjustment of System earning assets so that re-discounts might be approximately equal to the total of Government securities and bankers acceptances held, this sale of securities to be simultaneous with reductions in the discount rates of a number of the Reserve banks.

3. One Reserve bank in order to increase its earnings was considering the desirability of its buying for its own account in the market \$500,000 a month of Government securities.

4. A proposal to purchase Government securities and reduce discount rates to secure a deliberate inflation of credit for the benefit of business, particularly through the bond market.

5. To do nothing now but to be prepared to meet autumn seasonal requirements for Federal reserve credit (computed at between \$350,000,000 and \$400,000,000) by purchases of Government securities and increases in bill holdings.

There followed a brief discussion of the implications of the findings of the last meeting of Governors on March 25. Governor Young indicated that he had hesitated to vote favorably on the New York application for a three per cent discount rate because of the position of Governors at that meeting on March 25. Governor Harrison indicated that the New York Reserve bank he was sure did not want to be in a position of feeling that they were violating the spirit of the findings of the Open Market Policy Conference in making a change in discount rate following such a conference, particularly when a number of weeks had elapsed after the conference. The decision as to discount rates he regarded as primarily the responsibility of the boards of directors of the respective Reserve banks subject to the review of the Federal Reserve Board, and he did not believe the action of the Open Market Policy Conference should be regarded as in any way restricting freedom of action on discount rates. A number of other governors indicated their agreement with Governor Harrison's statement.

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At 11:45 the representatives of the Federal Reserve Board retired from the meeting and the Open Market Policy Conference reconvened by itself.

The action taken in the organization of the Conference at the meeting on March 25 was reaffirmed both as to the election of the representative of the New York bank as chairman of the conference and as ex-officio chairman of the Executive Committee, and as to the appointment for one year of an executive committee composed of the representatives of Boston, Philadelphia, Cleveland, Chicago and New York banks. It was agreed that in following the principle of reasonable rotation in the membership of the executive committee, there should be sufficient flexibility so that the committee should not be made up altogether of new members and should be fairly representative of different sections of the country and various interests. Mr. Burgess was elected secretary of the conference for one year.

Mr. Harrison explained the considerations which had led to the calling of the Conference indicating in particular that he desired an opportunity to report to the other Governors concerning his recent trip abroad, and also that a full discussion of the credit situation seemed desirable prior to the beginning of the vacation season.

Governor Harrison then gave a full report of his trip to Europe, of the point of view with regard to the credit and business situation held by the heads of banks of issue of different countries, the developments with regard to the gold position abroad, and with regard to the establishment of the Bank for International Settlements and the extent of its relation to the banks of issue, and in particular to the Federal Reserve System.

In the course of the discussion Governor Harrison emphasized the worldwide nature of the recent price declines and business depression, and indicated the influence of this world depression upon the position of the United States as reflected in part by the fact that this country's export trade for the first quarter of this year was about 22 per cent less than in the like period of 1929 and the import trade was approximately 20 per cent less. While the worldwide depression appeared in

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part to be due to an over-production of certain principal commodities it also appeared to reflect a shortage of working capital, and thus a restriction of purchasing power, in a number of countries, and had been affected by the stringent credit conditions prevailing last year in world money markets which in turn were in part a reflection of the use of funds for speculation centering about the New York security markets but worldwide in its scope. The recovery of world trade appeared in turn to be in no small degree dependent upon the restoration of purchasing power through the medium of foreign borrowings in the New York money market, just as the recovery of domestic trade appeared to be much dependent on the new financing for domestic enterprise in the United States.

Before the adjournment of the morning meeting the Conference voted it to be the sense of the meeting in response to the specific inquiry made by Governor Young that in view of the full discussion of business and credit conditions had at this meeting there was no need for holding the usual spring conference of governors.

The morning meeting adjourned at 1:15 p. m.

At 2:30 p. m. the Conference reconvened, all of the Reserve Bank representatives being present except Governor Black who joined the meeting at about 3 p. m. Governor Harrison continued his discussion of the European situation and its relation to business and credit conditions in the United States.

There were distributed to the meeting and reviewed the preliminary memorandum of the Chairman, the Secretary's report, and a copy of a letter of May 15 from Mr. Case to Governor Young giving the New York Reserve Bank's interpretation of the Open Market Policy procedure reviewed to March 25.

There was further extended discussion of the procedure of the Federal Reserve System in its relationships with the Bank for International Settlements. Those present indicated that they were in agreement with the policy and procedure adopted by the directors of the Federal Reserve Bank of New York, first in passing upon any question submitted to the New York bank by the Bank for International Settlements, in accordance with the terms of the statutes of that institution,

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and second, in giving the Federal Reserve Board an opportunity to dissent from the conclusions of the directors of the Federal Reserve Bank of New York as to any major operations which might affect credit conditions in the country at large. Those present further agreed that it would be impracticable to attempt to submit questions of this sort to the other Federal reserve banks for their views.

There ensued a general discussion of the credit situation and the different proposals which had been made for Federal Reserve action, and there was a discussion by different governors present both as to the degree of the severity of business depression and the extent to which it would be wise for the Reserve System to go in throwing its influence towards easy money and an abundant supply of credit. In the course of the discussion Governor Harrison reported that in a number of recent weeks the Federal Reserve Board had failed to approve without delay applications of the Federal Reserve Bank of New York for a lower minimum buying rate on bills, and that for considerable periods the New York bank had therefore been without any downward flexibility in its bill buying rate as was the case at that very time. After discussion it was the sense of the governors present that the minimum buying rate for purchases of bankers acceptances approved by the Federal Reserve Board should always be at a point which will give flexibility in the bill operations of the Federal reserve banks.

The discussion reverted to the question which had been raised by Governor Young concerning the relationship between the findings of the Open Market Policy Conference and discount rate action by the several Federal reserve banks, and the following motion was adopted:

The conference voted to go on record that recommendations as to the discount rate of any Federal reserve bank or Federal reserve banks are not within its proper province and that the directors of any Federal reserve bank must be free at any time to change the discount rate of their bank subject only to the review and determination of the Federal Reserve Board.

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The letter of May 15 from Mr. Case to Governor Young giving the New York Reserve Bank's interpretation of the Open Market Policy procedure, revised to March 25, was read, and it was generally agreed that this interpretation of the procedure was not in anyway inconsistent with the sense of the meeting of March 25.

Governor Harrison reported that the Federal Reserve Bank of Kansas City had requested the allotment of an additional amount of \$10,000,000 of Government securities in order that its volume of earning assets might be sufficient to assure an amount of earnings adequate to cover expenses and dividends. A discussion ensued in the course of which it was reported that a number of the Reserve banks did not at that time have sufficient earning assets to cover completely their expenses and dividends, and that a redistribution of Government securities to one Reserve bank without a full consideration of the requirements of all might result in possible unfairness. It was, therefore, agreed that the figures for each Reserve bank should be assembled as of the end of May with a view to determining the results of operations of the first five months with respect to earnings, expenses, and dividends, and an estimate be then made of the probable results for the balance of the year on the basis of which new ratios of allotments of securities might be determined and necessary readjustments in the Open Market portfolio effected.

With regard to the suggestion of one of the Federal reserve banks, that it be permitted to purchase government securities for the purpose of supplementing its earnings, it was the sense of the conference that the supplementing of income of a Federal reserve bank is not a proper reason for the purchase of government securities.

With regard to the policy to be pursued to meet fall credit requirements, it was the sense of the conference that, in view of the uncertainties as to credit conditions, it is too early at this time to formulate definite plans as to the means to be used to provide Federal reserve credit to meet autumn seasonal requirements.

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The meeting adjourned at 6:15 p. m.

The meeting reconvened at 10:00 a. m. on the morning of May 22, there being present:

Governors Harrison, Norris, Seay, Black, Fancher, Geery, Martin, Talley and Calkins, and Deputy Governor McKay.

The action taken on the preceding day as it had been formulated in a series of motions was reviewed and approved by those present.

After a further review of the credit position the following minute was adopted:

The Conference has considered a preliminary memorandum reviewing domestic business and credit conditions and has discussed at length the present trends in world trade, commerce and commodity prices. Particular consideration was given to the rapidly declining volume of our export trade and its probable relation to the decline in commodity prices in this country.

It appears to the Conference that conditions in business, agriculture and trade are still seriously depressed, not only in this country but evidently throughout the rest of the world as well. It is the sense of the Conference that these conditions merit continuous careful observation by the Federal Reserve System in order that the System will be prepared to act promptly in the event that conditions further develop in such a way as to make action seem advisable.

In the present circumstances, however, it does not appear to the Conference that any affirmative recommendation as to Open Market operations is advisable just now. But it is the sense of the Conference that if the situation so develops as to require an Open Market operation by the System the members of the Conference will be prepared to reconvene or else, if a meeting of the whole Conference is not practicable, to act promptly on recommendations of its Executive Committee.

At 11:00 a. m. the Conference met with the Federal Reserve Board, there being present, in addition to the above, the following:

Governor Young and Messrs. Cunningham, Hamlin, James, Miller and Platt,
and Messrs. Goldenweiser, McClelland and Smead.

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The Chairman of the Conference reported on the action taken by the Conference in the matter of its organization. He also read to the meeting the motions passed by the Conference with regard to

- (a) the spring Governors' Conference,
- (b) the minimum buying rate for bills,
- (c) the relation of action of the Conference to discount rates,
- (d) the purchase of Government securities to supplement earnings, and
- (e) the policy with respect to meeting autumn credit requirements.

The minute with respect to business and credit conditions adopted by the Conference was then read to the Federal Reserve Board and discussed fully. The advisability of the immediate purchase of Government securities was raised by a member of the Federal Reserve Board, from the point of view of seeing to it that the Reserve System did everything in its power to remove every possible restraint of business as far as credit was concerned, and particularly as to the desirability of an active bond market. The query was also raised as to whether any formula could be found for the desirable total amount of Federal reserve credit which might be a guide for open market operations.

In commenting on the minute submitted by the Conference Governor Harrison indicated that he believed the possible necessity for the purchase of Government securities might become imminent at any time.

The meeting adjourned at 12:30 p. m.

W. Randolph Burgess,
Secretary.