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~~Confidential~~
Final minutes
11/30/31

MINUTES OF THE MEETING OF THE OPEN MARKET POLICY CONFERENCE
WASHINGTON, NOVEMBER 30, 1931

The conference convened at 10:30 a. m.

Present: Governors Young, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, Bailey, McKinney, Calkins, and Harrison, Chairman.

Governor Harrison referred to the procedure which had been followed at past meetings of the conference, in accordance with the Revised Plan of Procedure as approved by the Federal Reserve Board and the Federal Reserve Banks, and referred to the fact that at the last meeting of the conference the question was raised by some members of the Federal Reserve Board as to the advisability of a joint meeting with the Board prior to the adoption of any formal resolution by the conference. Accordingly, it was understood to be the sense of the conference that the chairman should invite the Federal Reserve Board to meet with the conference at the outset of its deliberations and to consider with the conference the preliminary memorandum submitted by the chairman. Governors Calkins and Harrison acted as a committee of two to confer with Governor Meyer regarding this suggested procedure.

Governor Meyer subsequently reported back to the conference that the proposed procedure was agreeable to the Board. Thereupon the Federal Reserve Board joined the conference, and copies of the preliminary memorandum were distributed to the members of the conference and the Board.

A general discussion then ensued during the course of which various members of the Board and of the conference expressed their views regarding the policy which might be followed over the end of the year. It was generally the opinion of those present that it would be impossible at this time to formulate any long range open market policy for the System.

Trans letter 1/5/32 files 333.-C-2

In discussing possible means of handling the year-end situation, attention was directed to the fact that the System has unusually heavy maturities of bankers acceptances during the month of December, owing to the heavy purchases of acceptances which were made in the period of a few days in the middle of September following the suspension of gold payments by the Bank of England. The currency and banking situations were also discussed and some question was raised whether or not the demand for currency for Christmas purposes, usually amounting to about $200,000,000, might not be reduced this year as a result of the utilization of currency withdrawn during the past several months for hoarding purposes.

It was the general sentiment of the members of the conference that there would no doubt be a vigorous effort on the part of many banks throughout the country to "window dress" over the turn of the year, in order not to issue statements showing bills payable. It was pointed out that the System now has approximately $650,000,000 of discounts but that the borrowings by banks in New York and Chicago were relatively insignificant, an unusual situation considering the total amount of discounts. Governor Harrison indicated, however, that in his opinion it would probably not be possible to go through the month of December without a substantial increase in the discounts of New York City banks, even though a number of those banks would no doubt prefer to be out of debt at the end of the year if only because of their desire to show their foreign correspondents that they were not borrowing. Governor Meyer expressed the hope that the System would not take any position, by action or inaction, which would place any unnecessary further pressure upon the banking or credit position. After further general discussion the Board withdrew from the meeting and the conference then proceeded with its discussions.

Upon motion duly made and seconded, the Secretary's report of the operations of the System Account since the last meeting of the conference was accepted and ordered placed on file.

The conference then proceeded to discuss the preliminary memorandum submitted by the chairman. Governor Harrison suggested that there were two possible approaches to the problem: first, the policy to be pursued by the System during the month of December and over the turn of the year, and, second, a long range open market policy of the System. There are so many complex and imponderable factors in the situation at the present time that he suggested the conference devote its attention solely to the first problem, leaving the second to consideration by a subsequent meeting sometime in January.

Governor Harrison then suggested for consideration of the conference the advisability of authorizing the Executive Committee in its discretion to purchase up to $200,000,000 of government securities between now and the end of the year with a view to avoiding any unnecessary pressure upon the credit or banking structure of the country. This was considered important lest such pressure might tend to revive difficulties with banks which already have suffered large withdrawals of deposits in face of a heavy depreciation in their assets, especially bond portfolios.

Governor McDougal asked whether any members of the conference believed that government securities should be bought immediately. It was the consensus of views that there is no occasion for such purchases at the moment and that there might be some disadvantage in purchasing any such securities before the middle of December, if only because of the likely large operation by the government at that time.

Governors Norris and Fancher said that they were not disposed to approve of the purchase of government securities solely for the purpose of enabling the New York and Chicago banks to keep out of debt at the end of the year. Governor Young said that in his opinion these and other banks should be expected to borrow over the turn of the year. Governor Martin called attention to the fact, however, that possibly when the end of the year arrives it might be considered desirable by everyone that the New York banks should not be in debt, if only because of the possible bad effect that it might have on public sentiment both here and abroad. Governor Harrison said it was difficult at this time to state what would necessarily be the appropriate course to pursue at the end of the year; that while he believes that the New York banks will have to be borrowing some amounts at that time, nevertheless, the Executive Committee should not be limited in its discretion to purchase government securities only in the event that the New York and Chicago banks are in debt.

Governor Harrison then formally presented to the conference a resolution which, with some later amendments, reads as follows:

> "The conference reviewed a preliminary memorandum submitted by the Chairman. They discussed business banking and credit conditions both here and abroad and considered in particular the effects upon the American banking and credit structure of the recent huge withdrawals of gold and currency and possible further withdrawals of currency for holiday purposes or for hoarding. They further considered the heavy maturities of bills in the System portfolio before the end of the year. While the conference was of the opinion that there is no occasion for any immediate purchase of government securities, nevertheless, they voted that in view of all circumstances and in order to be prepared if and when occasion arises, the Executive Committee be authorized in its discretion to buy up to $200,000,000 of government securities before the end of the year. It was the sense of the conference that the committee should also be authorized in their discretion to sell any securities so bought after the turn of the year if conditions then permit. The conference felt that there should be another meeting of the conference early in January to consider the System's general operations and policies in the light of conditions as they then exist."

Before final action on this resolution, Governor Harrison discussed at some length the international situation calling attention particularly to the change in conditions in various countries of the world since the abandonment of the gold standard by England. He emphasized the steps which have been taken in recent weeks by various countries to increase tariffs and to impose exchange restrictions which act as serious deterrents to international trade. He indicated that it was difficult to see how many of these countries can determine upon their future monetary policy until England finally decides upon a course of stabilization, but that it is not likely in his opinion that England will attempt to stabilize its currency until some definite action is taken about reparations and intergovernmental debts, and until they are in a position better to determine their own trade balance and price levels which will be affected by the tariff which the government has now enacted.

After further discussion and consideration of various aspects of the international situation and especially trade balances and monetary policies, action on the resolution proposed by Governor Harrison was called for and after it was duly seconded the resolution was unanimously approved and a copy delivered to Governor Meyer for consideration by the Federal Reserve Board.

Some question then arose as to the procedure to be followed in handling profits and losses in the System's Open Market account at the end of the year. Upon motion duly seconded, it was voted unanimously to follow the procedure suggested in the report of the secretary of the committee, previously submitted to the conference.

The conference adjourned at 5:30 p. m.

GEORGE L. HARRISON
Chairman