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OPEN MARKET INVESTMENT POLICY

EXCERPTS

1929 - Mid-1931

[redacted] No longer confidential
By

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Explanatory Note

The record of discussions and policy decisions relating to the operations of the Federal Open Market Investment Committee during the years 1923-1930, and of the Open Market Policy Conference during 1930 and the first half of 1931, has been re-examined recently. In the belief that this record may have a continuing reference value to present and future members of the Federal Open Market Committee, the parts describing actions taken and the reasons for those actions have been reproduced. The parts omitted consist largely of routine reports which do not seem essential to an adequate historical review of Committee operations in those years.

Copies of this record are being furnished to each of the members of the Committee, to the Presidents of the Federal Reserve Banks not currently serving on the Committee, and to members of the staff who are working on Committee matters. The first volume of the record covers the years 1923-1928 and the second, the years 1929 - mid-1931. No similar review has been made for the period subsequent to July 1931.

Winfield W. Riefler, Secretary,
Federal Open Market Committee.

March 1956

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Developments during 1929

On January 4, 1929 the Federal Reserve Bank of New York increased its rates for purchases of bankers' acceptances of longer maturities to the following: 1 to 30 days - 4 1/2%, 31 to 90 days - 4 3/4%, 91 to 120 days - 4 7/8%, 121 to 180 days - 5%. The repurchase rate was increased from 4 1/2% to 4 3/4%. This increase was "Noted" by the Board, after an inquiry as to the reasons had been addressed to the New York bank, inasmuch as the Board had understood that the question of buying rates would be considered at the Open Market Investment Committee meeting on January 7. The bank advised that there seemed to be no satisfactory alternative to recognizing changed market conditions by an increase in buying rates.

Meeting of January 7, 1929.

Preliminary Memorandum of Chairman. The Open Market Investment Committee met in Washington on January 7 and the following preliminary memorandum was presented for consideration.

"The total volume of business in 1928 as compared with 1927, including manufacturing, trade, crop production, building, etc., showed (as nearly as can now be estimated) an increase for the year of approximately 3 per cent.

"A comparable figure for the growth in the amount of credit in use is less easy to compute because much of the increase in credit did not take the form of bank loans but rather loans made by individuals and corporations, and was reflected in the banking figures in the increased velocity of bank deposits. If, however, the growth in bank loans and investments from June 1927 to June 1928 (to take the mid-points of each year) is increased by the increase in recorded loans for individuals and corporations made on the New York Stock Exchange, there appears to have

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been a total increase in credit of more than 8 per cent. An equal rate of growth is shown if the figures are taken from December 1927 to December 1928, as nearly as can now be estimated.

"The computation can be made another way by computing the change in bank deposits multiplied by their velocity (MV of the equation of exchange) which would give an indication of the use of credit. These figures show an increase of about 25 per cent from the last quarter of 1927 to the last quarter of 1928. This compares with a 15 per cent increase in 1927.

"Thus, the best estimates that we can make indicate that the increase in the use of credit has been quite out of relation to the increase in business. In past years such a lack of relationship has usually been accompanied by changes in prices of different kinds, and often by speculation in commodities or securities. During the past year, as we know from the segregated reports, much of the increase in credit has found its way into loans to brokers on the Stock Exchange.

"At a number of times during the year there was some evidence that the expansion of credit had been checked. This was true in February, in June, and again early in December. But on each occasion the expansion was again resumed after a brief pause and while the total loans and investments of reporting member banks are only slightly higher than in May of 1928, nevertheless the total of all credit in use has continued to increase.

"While this credit expansion does not as yet constitute any considerable drain on the country's basic bank reserves since it has not expanded bank deposits by any large amount, it is a potential drain for the loans made by corporations and individuals, constantly threatens to be converted into bank loans, particularly at times of strain, as was illustrated at the year-end when New York City banks were called upon to

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put $581,000,000 in the market in the last five days of the year, with the consequence that the reserve ratio of the New York bank was reduced to 55 per cent on December 31. So that, quite aside from any dangers that may be incident to the possibility of a deflation in the present level of stock prices, the continued growth in credit is at least a potential use of bank reserves at a more rapid rate than could be continued indefinitely especially in the face of actual and possible future losses of gold.

"The Federal Reserve System thus appears to be facing at the beginning of the year the same general problem which it has faced during the entire year of 1928; that is, the problem of checking any unnecessary expansion of credit without, if possible, seriously penalizing business.

"Year End Movement of Funds. The Christmas and year-end requirements for funds called into use a slightly larger additional amount of Federal reserve credit than in preceding years. Total bills and securities in the System were increased from $1,500,000,000 about the middle of November to nearly $1,900,000,000 in the last week of the year. In recent years the retirement of Federal reserve credit during January has been a little over $400,000,000, and the problem this month appears to be to make sure that the seasonal return flow of currency and credit is applied to a reduction of Federal Reserve credit in use so that it will not be made the basis of any unnecessary expansion of bank credit.

* * *

". . .last year the diminution in the bill portfolio during January was smaller and more gradual than in 1927, thus offsetting somewhat the effectiveness of large sales of government securities. The liquidation of bills will be somewhat difficult this year because of the present relatively low position of bill rates in the market, although

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recent increases of bill rates should aid in securing a normal reduction of bill holdings.

"If we assume a normal reduction of $50,000,000 to $100,000,000 in bill holdings during January, and a withdrawal of funds through gold earmarking of $75,000,000 in the first two weeks of the year, there might be expected to be a reduction of about $250,000,000 or $300,000,000 in bills discounted. This would mean a reduction of rediscounts for the System to $850,000,000 or $900,000,000 during January and February, or about the same amount as was maintained during October and November, a period during which there was a vigorous increase in bank credit, and during which money rates tended to ease somewhat. Already borrowings of New York City banks have been reduced to about $200,000,000 and further reductions are likely.

"The two possible methods for maintaining the amount of discounts would be the sale of government securities or an additional liquidation of the bill portfolio beyond what normally takes place. The two possible means of making any given amount of member bank indebtedness more effective in its pressure on the credit situation, if this is regarded as necessary, would appear to be increases in discount rates or direct dealing with member banks.

"In determining what, if any change in policy, should be adopted, and the methods to be employed to effect it, the three major points for consideration should, of course be

"1. The effectiveness of such action in controlling unnecessary expansion of credit.

"2. The effect of any such action upon domestic business.

"3. The effect of such action upon the world monetary situation

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and indirectly upon world trade."

Action of Committee. The Committee's minutes of the meeting set forth the following:

"It was voted to invite Governor Seay and Governor Calkins, who were in Washington on other matters, to attend the meeting of the committee and to invite Governor Young to attend after a preliminary discussion.

"The preliminary memorandum on credit conditions and the report of the secretary were read, and on motion, accepted.

"Governor Harrison made a statement concerning the position of the accounts of foreign correspondents and the effects upon these accounts and upon business generally of a continued period of high money rates in the United States. He indicated that the principal important banks of issue abroad, with the exception of Germany, have used large amounts of their foreign balances in sustaining their exchanges, and that the Bank of England had lost large amounts of gold also. Moreover, in most of the countries of Europe the return of production and trade to more normal volume has created a demand for additional credit and bank reserves. Under these conditions there has already been some stiffening in money rates abroad and some increases in the discount rates of banks of issue. This movement is likely to go further if money rates continue high in this country. It seems likely, moreover, that Europe may require further amounts of gold.

"At this point Governor Calkins entered the meeting (11:07 A.M.)

"Governor McDougal raised the question whether it was desirable for the Federal reserve banks to make the present charge of one eighth for their guaranty on bills bought for the account of foreign correspondent banks. Governor Harrison indicated that this was a customary

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charge by banks in this country for this service and that if for no other reason it was desirable for the Federal reserve banks to conform to the practice in this country so as not to compete unfairly with member banks.

"There ensued an informal discussion of the general credit situation and the methods which might be employed by the reserve banks to prevent further excessive increases in the volume of credit, including a discussion of the year-end situation and the probable return flow of funds to principal centers during January and February. The discussion included also a review of the methods employed by the reserve banks represented in dealing with member banks who were large or continuous borrowers. It appeared to be the general view of those present that inerviews with member bankers, to secure their cooperation in preventing excessive use of Federal reserve funds, were of great value, particularly at this time, as a means of making sure that the seasonal return flow of funds is employed in the reduction of bills and securities of the Federal Reserve System.

"The committee also discussed the possible desirability of a sale of securities as a means of preventing the stimulation of further increases in the volume of credit in the first two months of the year.

"The committee then discussed the position of the present Open Market Committee in view, (1) of the fact that at the joint conference the representatives of all the banks indicated a desire for the reorganization of the committee, and (2) of the form of the Federal Reserve Board's disapproval of the recommendation adopted by the meeting of the committee in November.

"At 12:35 Governor Young was invited to join the meeting. Governor Harrison summarized for Governor Young the discussion which had taken place. Thereupon the members of the Committee discussed with

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Governor Young the status of the committee indicating some possible embarrassment in acting when not constituted in accordance with the wishes expressed by the joint conference.

"Governor Young indicated that the Board was still considering the recommendations of the conference and that he hoped for action in the near future.

"Concerning the question of the relation of the committee to the Federal Reserve Board, the question was raised whether as a matter of procedure the Board was prepared as in the past to approve in advance a policy recommended by the committee, which would then be executed by the committee, or whether, as implied in the Board's letter of November 27, 1928, the Board would only approve any purchase or sale of Government securities at the time it was to be made. Governor Young considered various aspects of this question with the committee.

"There ensued a discussion of policy as to the discount rates, direct action, or the purchase or sale of Government securities.

* * *

"The discussion of general credit policy and possible open market operations was resumed. In view of the recent continued tendency toward an increase in the volume of credit, the committee was of the opinion that the System should be prepared to sell up to $50,000,000 of Government securities during January or February, if the amount of member bank indebtedness in principal cities should diminish to an amount where money rates become so easy as to stimulate further increases in the total volume of credit beyond that required for business purposes. It was the sense of the committee, however, that there is no occasion now to make a recommendation, either as to the purchase or sale of Government securities

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for System account.

"After further consideration of the matters discussed at the morning session the committee expressed the view that it would be helpful and desirable to have some more definite understanding or definition of its functions. In the past the Committee has felt, and has understood that the Board concurred in the view that it was a reasonable and proper division of authority and responsibility that the committee should recommend policies, that these policies should then be approved or disapproved by the Federal Reserve Board and the participating Federal reserve banks, and that if approved by the Board the committee should then have authority, within specified limits, to take such action as may be appropriate to carry out the policies so approved for account of all banks desiring to participate.

"It was the opinion of the committee that a continuance of this procedure would be desirable and would facilitate the committee's serving its most useful purpose, especially if the membership of the committee is enlarged to twelve as recommended by the joint conference last November.

"At 4:05 the committee met with the Federal Reserve Board,... Copies of the preliminary memorandum on credit conditions were distributed to those present.

"Governor Harrison then made a statement reviewing the general credit situation and the position of foreign banks of issue, and summarizing the committee's discussion at the morning session. He read to the meeting the preliminary draft of the minute which had been prepared to cover the committee's views with regard to the possible sale of securities and the scope of the functions of the committee.

"There ensued a discussion concerning the general credit situation,

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and particularly the prospective movement of funds during January and February.

"There was also an informal discussion concerning the possibilities of broadening the bill market. Some members of the Board raised the question whether the sale of bills from reserve bank portfolios would aid in the distribution of bills. Representatives of the reserve banks present reported that in their opinion there is an ample supply of bills available at all times for investors without the necessity of selling bills from reserve bank portfolios."

Open Market and Discount Rate Developments, January-March, 1929.

By January 16, 1929 the total bills and securities of the Federal Reserve system had declined to $1,551,000,000, due almost entirely to repayment of rediscounts by member banks. There had been a slight reduction, since the first of the year, in government securities held ($6,000,000), but practically no change in bills bought in the open market.

Increase in buying rates on acceptances. On January 19 the Deputy Governor of the Federal Reserve Bank of New York reported, that in an effort to secure a better distribution of bills, dealers were increasing their buying rates to a maximum of 5 1/8% for longer maturities, with the result that on Monday, January 21, the Federal Reserve Bank would probably find it necessary to further increase its buying rates. There was considerable discussion by the Board covering the probable effects of a further increase in buying rates with the possibility of a later increase which might be necessary in rediscount rates, upon business and the money market.

On January 21 the Federal Reserve Bank of New York did increase its schedule of buying rates to the following: - 1 to 15 days -

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4 3/4 per cent, 16 to 45 days - 4 7/8 per cent, and 46 to 180 days - 5 per cent. Repurchase increased from 4 3/4 per cent to 5 per cent.

Moral Suasion. The Board thereupon began consideration of a letter to be addressed to the Federal Reserve banks in accordance with the resolution adopted by the Board on December 31, pointing out the firming tendencies of the money market, contrary to the usual trend of rates at the season, due to the extraordinary absorption of funds in speculative security loans and the necessity for the Federal Reserve banks to protect their credit facilities against misuse by member banks.

At the end of January the total volume of the System's bills and securities amounted to $1,467,000,000, the reduction showing up in some distribution of bills and a decrease in security holdings, principally under resale agreement.

At the meeting of the Board on February 2, 1929, the Governor reported conversations while in New York, with the Governor of the Federal Reserve Bank of Boston and the Governor and Chairman of the Federal Reserve Bank of New York, with regard to possible increases in the rediscount rates of the banks. He also reported that although the Open Market Investment Committee had been unable to sell any government securities for some time, the market was somewhat improved, and the Committee might propose some sales from the System's portfolio in the near future, although the sales would, of necessity, be in small amounts. No objection was expressed by the members of the Board to such sales.

At this meeting the Board approved and ordered transmitted a letter to all Federal Reserve banks, referred to above, with regard to the problem of protecting the credit situation from strain because of

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excessive absorption of credit in speculative security loans, and inquiring as to the methods employed by the Federal Reserve banks to protect their credit facilities from abuse. There was discussion at this meeting with respect to the possibility of publication of this letter as a press statement, which discussion was resumed at the meetings on February 4 and 5, with the result that at the latter meeting a press statement, quoting from the letter, was approved by the Board and ordered released for publication in the morning papers of February 7.

Consideration of discount rate changes. At the meeting on February 4, the suggestion of the Governor of the Federal Reserve Bank of Boston that he would recommend an increase in the discount rate to his board of directors, was considered and a letter was addressed to him requesting his cooperation in an effort to improve the existing situation along the lines indicated in the Board's letter of February 2.

At the February 5 meeting, the Governor of the Federal Reserve Bank of New York was present and advised the Board of consideration given by his directors to the present credit situation, and the possible necessity of an increase in the discount rate, should other efforts fail to half the increasing volume of credit. The majority opinion of the members of the Board was that further efforts should be made along the line of so-called direct action, and that a rate increase should not be considered until the System is satisfied that all other reasonable means have been exhausted.

(Secretary's note: On February 7 the directors of the Federal Reserve Bank of Dallas, one of the four banks maintaining a 4 1/2 per cent rate, voted to increase the rate to 5 per cent. The matter was laid on the table by the Board.)

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Letter from New York Bank concerning gold movements, February 13.

At the meeting on February 13 the Governor reported advice received over the telephone from New York that it would be necessary for the Reichsbank to ship some gold to this country and, if while the gold is in transit the Reichsbank should find it necessary to support its exchange, it might request the Federal Reserve Bank to assist it for a few days by making an advance on the gold in transit. The following letter, under date of February 13, was addressed to the Board by the Governor of the New York Bank:

"For your information, I am glad to enclose herewith a copy of a letter which we have to-day sent to the governors of the Federal reserve banks not represented on the Open Market Investment Committee, relative to the sales of government securities to offset current gold imports. You may remember that I discussed this matter with you on the telephone last week and that you then informed me that such sales met with the approval of the Board.

"While it appears now that the flow of gold from London has been checked, at least temporarily, nevertheless it is very likely that we may get some gold from Berlin as the Reichsbank has cabled us saying that it is possible gold must be shipped and inquiring whether there would be some way of our making an advance against the gold in transit. This rather indicates some pressure for dollars on their part. While no amounts are mentioned in the cable, nevertheless since the Reichsbank already has $3,000,000 of gold earmarked with us, I assume that their needs must be for an amount in excess of this or there probably would be no occasion for further shipments. I shall, of course, keep you advised."

The following is the letter to the Governors:

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"As we telegraphed you on February 7, the Open Market Investment Committee, with the approval of the Federal Reserve Board, decided to dispose of some of the System's holdings of government securities, as it might have an opportunity to do so, in order to offset current gold imports.

"As you may remember, early in January we earmarked approximately $65,000,000 for foreign account. Much of this, however, was offset by gold imports from Canada. Since the first of February, owing to the weakness in sterling exchange, we have received $22,000,000 of gold from London. During the past week, or since February 7, the sales from the System Account, as you have already been advised, have been about $21,500,000; just a little less than the total amount of gold received from London. Since the increase in the discount rate of the Bank of England, sterling has strengthened and there does not appear to be any immediate likelihood of further gold imports from that point. In the circumstances no further sales of securities are contemplated at the moment although we may soon get gold from Berlin."

Further developments in buying rates, discount rates, and moral suasion. At the close of business February 13, the earning assets of the Federal Reserve System amounted to $1,481,000,000, consisting of $904,000,000 of rediscounts, $391,000,000 of acceptances and $177,000,000 of government securities, of which $54,000,000 were in the System's account, a reduction of $22,000,000 in that portfolio.

On February 14, the Governor reported to the Board that bill rates were again being advanced by dealers in New York City and it would probably be necessary for the New York bank to make some increase in its buying rates. The directors of the bank, at their meeting on that date, voted to establish a rediscount rate of 6%, which the Board voted to take

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under review. The directors, however, requested that their action be either approved or disapproved, and in accordance with this request, definite action disapproving the rate was taken by the Board.

On February 15, the Federal Advisory Council met with the Board and submitted the following minute, which was adopted at its preliminary meeting the day before:

"The Federal Advisory Council approves the action of the Federal Reserve Board in instructing the Federal Reserve Banks to prevent, as far as possible, the diversion of Federal reserve funds for the purpose of carrying loans based on securities. The Federal Advisory Council suggests that all the member banks in each district be asked directly by the Federal Reserve Bank of the district to cooperate in order to attain the end desires. The Council believes beneficial results can be attained in this manner."

On February 15, the Federal Reserve Bank of New York again increased its buying rates on acceptances to the following: 1 to 45 days - 5%, 46 to 90 days 5 1/8%, 91 to 180 days - 5 1/4%, Repurchase - 5%, trade acceptances - 5 1/4%.

On February 20, the total bills and securities of the System had been reduced to $1,403,000,000, consisting principally of $865,000,000 of rediscounts, $356,000,000 of acceptances and $172,000,000 of securities, of which $49,000,000 were in the System's account.

Letter from Acting Chairman to Board, February 25. Under date of February 25, the following letter was addressed to the Board by the Deputy Governor of the Federal Reserve Bank of New York:

"I have your letter of February 22 and am glad to report as to recent sales from the Open Market Investment Account and as to its present

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status.

"Governor Harrison, in his letter to you under date of February 13, reported sales aggregating $21,500,000, which left a balance in the account of $53,925,800. You will recall that at a meeting of our Executive Committee a week ago at which you were present it was agreed that a moderate amount of further sales was desirable as and when the market could absorb additional offerings without demoralization. Since that time there has been sold from the account a total of $10,425,800, leaving a net balance in the account of $43,500,000, made up of two issues only; viz.:

$13,500,000 - December 15 - 4 1/4% certificates
$30,000,000 - December 15, 1932 - 3 1/2 Treasury notes.

"In addition to the sales referred to, from the System Account, there were $2,000,000 of short-term Governments which we held temporarily in the investment account of this bank and which have also been disposed of. These sales have been made gradually as bids have been received from the market, but with call money rising today to 9% and with the probability that it will remain high during the balance of this month, the demand for short-term Government securities has fallen off and it seems unlikely that we will have further inquiries from the market during the next few days. If, however, any further changes occur in the account, I shall be glad to write you again, next week."

(Secretary's note: On March 1 the Board approved the rediscount rate of 5%, established by the directors of the Federal Reserve Bank of Dallas, which it laid on the table on February 8, and the rate became effective the following day, March 2.)

Letter from Acting Chairman to Board, March 5. Under date of March 5, the following letter was addressed to the Board by the Deputy

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Governor of the Federal Reserve Bank of New York:

"Since I wrote you on February 25,1929, the only change in the Open Market Investment Account consists of the sale of $3,500,000 of Treasury certificates maturing December 15, 1929. During the latter part of the week there developed a slight demand for certificates maturing this year, which enabled us to make the sale of the December certificates just referred to.

"This transaction brings the total holdings in the System Account down to $40,000,000, made up as follows:

$10,000,000 - Dec. 15, 1929 - 4¼% certificates of indebtedness
30,000,000 - Dec. 15, 1932 - 3½% Treasury notes.

"As a matter of information, this relatively small portfolio of Government securities may prove to be a bit embarrassing to us in our dealings with foreign correspondents on March 15 of this year. We are holding here, for account of such correspondents, a total of $86,000,000 in the form of Treasury certificates of indebtedness maturing March 15, 1929, and if, as usually happens, these correspondents wish to replace a substantial part of their current maturities by acquiring other short-term Governments in their stead, it appears unlikely that we can, in so short a period, advantageously acquire the securities in the open market in sufficiently large blocks to meet the correspondents' requirements. During recent years the System's Open Market Account has been the medium for providing the necessary flexibility to enable us to accommodate our correspondents; but under existing conditions it looks as though some of them at least will have to shift into bankers bills or other investments."

Communications from New York Bank, week ending March 12. At the meeting of the Board on March 7, the Governor reported a suggestion by the Deputy Governor of the Federal Reserve Bank of New York that in

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connection with the March 15 financing of the Treasury, the Federal Reserve System should purchase about $25,000,000 of securities maturing on that date from the market, as offered during the ensuing week, but no action was taken by the Board pending submission of the matter to the directors of the Federal Reserve Bank of New York. However, no definite recommendation for such purchase was submitted.

Under date of March 8, the Board was advised by the Federal Reserve Bank of New York that an additional $8,500,000 of gold was being shipped by the Reichsbank, and that if the strong demand for dollars continued in Berlin, the Federal Reserve Bank might be requested to make an advance against this consignment also. However, no such request was received, and when the gold in question arrived in New York, it was earmarked for the account of the Reichsbank.

Under date of March 12, the following letter was received from the Deputy Governor of the Federal Reserve Bank of New York:

"With the continuance of firm money and a very weak Government security market, no further sales have been made from the Open Market Investment Account since my last letter to you under date of March 5, 1929.

"In that letter I mentioned the possibility of our having to acquire for account of foreign correspondents other short-term Government issues to replace their $86,000,000 certificates maturing March 15. This replacement has been accomplished partly by acquiring bills and partly by contracting for June and September certificates in the market, while a further part is to be disbursed to the market; all to be consummated as of March 15, 1929."

Communications from New York Bank, week ending March 19. On March 15, the Governor reported that according to the Deputy Governor of

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the Federal Reserve Bank of New York, the overdraft of the Treasury Department would probably amount to over $300,000,000, which should retire practically all rediscounts of New York City member banks, even though those institutions were taking over $100,000,000 of the overdraft. As a matter of fact, the overdraft did amount to $399,000,000.

Under date of March 19, the following letter was received from the Deputy Governor of the Federal Reserve Bank of New York:

"There have been no changes in the holdings of Government securities in the System's Open Market Account since I wrote you under date of March 12, 1929, though the bill holdings continue to show a gradual reduction.

"The various operations connected with the Treasury financing of March 15 were cleared without difficulty and without any apparent influence on the money market, no material ease in money developing during the week. In fact, the call money rate on the New York Stock Exchange held steady at around 7%, accompanied by slightly firmer time money. In connection with the quarterly financing, on March 15 this bank loaned to the United States Treasury $290,000,000 on its one day certificate of indebtedness, while $85,000,000 of the certificate was participated in by our member institutions. This participation was reduced to $20,000,000 yesterday and will be canceled today. The New York City banks, which owed us on the 14th $88,000,000, temporarily reduced their borrowings to $44,000,000 on the 15th, but with the day to day liquidation of the Government certificate we anticipate that the banks will presently be again borrowing $200,000,000 or thereabouts.

"As a result of the various operations during the week, particularly those having to do with the replacing of the large maturities

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of the foreign banks, this bank temporarily took over $4,000,000 of certificates of indebtedness which will be disposed of in the near future; also, in order to accommodate the Farm Loan Bureau, we took over in our investment account on March 15 $2,345,000 of Federal Intermediate Credit Bank debentures, of which $250,000 has been sold, and the balance is likely to be disposed of in the near future."

Further consideration of increase in discount rates. At the close of business March 20, the bill and security holdings of the Federal Reserve System aggregated $1,372,000,000, made up approximately of $943,000,000 of rediscounts, $237,000,000 of acceptances and $185,000,000 of government securities, of which $40,000,000 were in the System's account.

On March 21, following advances in market rates, the Federal Reserve Bank of New York made effective the following increases in the schedule of rates for purchases of acceptances: - 1 to 45 days - 5 1/4%, 46 to 90 days - 5 3/8%, 91 to 120 days - 5 1/2%, 121 to 180 days - 5 5/8%, Repurchase - 5 1/4%, trade acceptances - 5 1/2%.

On the same day, the directors of the bank again voted to establish a rediscount rate of 6 per cent, and inasmuch as definite action on that date was requested, the Board disapproved the increase.

A conference on March 22 between the Board and representatives of the Federal Reserve Bank of New York, developed a fundamental difference of opinion as to the advisability of an increase in rate, the New York directors feeling that everything which reasonably could, had been done, without the supplement of an increase in rate, to support the policy of the System, while the majority of the Board felt that results have been accomplished during the past several weeks by direct action on the part of the Federal Reserve System, and that further good could be done to

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prevent misuse of the credit facilities of the System without an increase in rate, with the attendant possibility of adverse effects upon the general business situation.

At the meeting on March 23, the Governor reported that at a meeting of the directors of the Federal Reserve Bank of Chicago, among whom sentiment for an increase in rate had been crystallizing for some time past, the directors were in favor of an increase, but took no action because of the reported unfavorable attitude of the Board. He reported further that member banks in Chicago had decided to take concerted action looking toward a liquidation of speculative credit loans. (The steady and increasing borrowings of certain member banks in the 7th Federal Reserve District was the subject of a letter which the Board addressed to the Federal Reserve Bank of Chicago, under date of March 18.)

On March 25, following further market advances in bill rates and substantial offerings to the Federal Reserve Bank of New York at rates 1/8% above those in effect at the bank, the following schedule of buying rates was established: 1 to 45 days - 5 3/8%, 46 to 120 days - 5 1/2%, 121 to 180 days - 5 3/4%, repurchase - 5 1/2%, trade acceptances - 5 3/4%.

On March 26, the directors of the Federal Reserve Bank of Philadelphia voted to establish a 6 per cent rate, which was disapproved by the Board, immediate action being requested. On the following day, a rate of 6 per cent established by the directors of the Federal Reserve Bank of Boston, was taken under review.

On March 27, the directors of the Federal Reserve Bank of New York again voted to establish a rediscount rate of 6 per cent, but their action was disapproved by the Board. The Chicago directors, at an adjourned

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meeting, took no action.

At the close of business on March 27, the bills and securities of the System amounted to $1,410,000,000, including $1,024,000,000 of rediscounts, $208,000,000 of acceptances and $170,000,000 of government securities, no change having taken place in the Open Market Investment Account, which remained at $40,000,000.

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Meeting of April 1, 1929.

At a meeting of the Open Market Investment Committee held on April 1, 1929, during the spring conference of Governors, the following preliminary memorandum was discussed and the minutes of the meeting disclose that, "After consideration of this memorandum and the development of credit conditions generally, the committee informally agreed that, as there appears to be no need just now to consider the purchase of government securities and as the committee already has authority to sell government securities, there is no occasion for any further recommendation at this time. It was understood by the committee that the chairman would make a report of this conclusion to the Conference of Governors and to the Federal Reserve Board."

Preliminary memorandum of Chairman. "Since the last meeting of the Committee on January 7, the System's holdings of U. S. Government securities have been reduced approximately 70 million dollars, due in part to the liquidation of sales contract holdings, and in part to a reduction in the System Special Investment Account from $75,591,000 to $40,000,000, largely made as an offset to gold imports. In addition, the policy of allowing acceptance holdings to mature without replacement has been reflected in a reduction in these holdings from $485,000,000 to $208,000,000.

"Gold Movements

* * *

". . . the reduction in the System Special Investment Account has about offset the total gain in gold since the first of the year.

"Reduction in Bill Holdings

"This leaves as the principal influence on the money market from

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open market transactions, the reduction in the Reserve Banks' bill portfolios which has been accomplished by permitting bills to mature and avoiding new purchases to replace them, by declining to take green bills. The reduction in bill holdings since the first of the year has been greater than in any recent year.

"While higher bill rates have resulted, sufficient investment demand has arisen to absorb the new bills coming into the market and thus reduce the dependence of the bill market upon the System. A considerable part of the demand has represented foreign buying, but buying by domestic institutions has also been stimulated somewhat by the higher yields now being offered.

"Largely as a consequence of the rapid reduction of the System bill portfolio the borrowings of member banks declined less in January than might have been expected and since the end of January have increased from an average level of 850 million to about 1,000 million dollars, with resulting increased pressure upon the money market.

"Member Bank Credit

"Since early in February . . . there has been a reduction of 153 million dollars in the amounts loaned by reporting banks outside of New York to security brokers and dealers in New York, but the loans of these banks to brokers elsewhere have increased 87 million and security loans to customers have increased 176 million, giving a net increase of 110 million in their total security loans. In New York City there has been little net change in security loans either to brokers or to customers.

"The increase in 'other loans' largely commercial has been in keeping with the usual seasonal tendencies.

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"Brokers Loans

"Meanwhile the demand for security loans has shown lulls, accompanying temporary reactions in the security markets, but in general has shown a tendency to increase further, rather than to decline. Total brokers loans after some reduction in February increased again in March and on March 20 reached a level 124 million dollars above the previous high point of February 6. There has been some reduction subsequently. The additional funds have been obtained from sources other than member banks, but it has been evident that increasingly high rates have been required to attract a sufficient supply.

"Money Rates

"These increasingly high rates offered by brokers have been accompanied by further advances in rates charged on commercial borrowing. . . .

"Effects On Business

"The higher money rates do not appear to have restricted short term commercial borrowing, but in a number of other ways the present high level of money rates is beginning to have a detrimental effect upon business.

"1. The volume of building operations has been declining largely because of difficulty in obtaining second mortgage money and loans for building operations and also difficulty in selling real estate bonds. Stock financing which has been resorted to in some cases has only partly met the requirements.

"2. A good many state, municipal, railway and other projects, ordinarily financed through bonds and notes, have been postponed because

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of difficulty in securing funds at reasonable prices. There is no way as yet of measuring the precise effect of these postponements upon business conditions. The decrease in bond financing has been partly offset by increases in stock financing. An analysis of new securities issued during the first two months of this year indicates, however, that out of a total of about $2,500,000,000 of stocks issued, less than one-fifth represented actual additions to the working capital of domestic commercial and industrial corporations. The remainder represented largely securities of investment trusts and other financial corporations, securities issued in mergers and consolidations, and refunding issues.

"3. Reduced foreign financing in the United States, together with rising money rates and stringent money conditions in England, Holland, Germany and Italy, due largely to our high call loan rates, are diminishing the purchasing power of those countries for our products, a tendency which is likely to be reflected sooner or later in reduced exports.

"It thus seems reasonably certain that present money conditions, if long continued, will have a seriously detrimental effect upon business conditions, and the longer they are continued the more serious will be the effect. The volume of business now appears to be sustained in part by the production of automobiles considerably in excess of retail purchases with a consequent stimulating effect upon the steel industry, and by the stimulation arising from paper profits in the stock market.

"The policies which have been adopted by the system since the first of the year appear to have slowed down somewhat the rate

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of increase in the use of funds for speculative operations. They do not yet appear, however, to have been successful in restoring a condition in which steps may be taken to ease the money market and restore conditions more wholesome for business.

Communications on Open Market Operations, Gold Movements, and Discount Rates, April - May 1929.

Letter from New York Bank to Board, April 2. Under date of April 2, the following letter was addressed to the Board by the Deputy Governor of the New York Bank:

"Since my last letter to you on this subject, under date of March 19, 1929, there have been no changes in the total of the System's holdings of Government securities amounting to $40,000,000, although today a change in ownership takes place due to the situation in St. Louis. As a result of the heavy demands on that bank by member banks in their district, they have requested the committee to relieve them of their participation in Government securities in the Open Market Investment Account amounting to $2,200,000, and in addition have asked to be temporarily relieved of $9,500,000 - 3 1/2% Treasury notes of 1930-32 held by them in their own portfolio. The participation referred to and the outright holdings have been taken over at current market prices and distributed to other participating banks with the understanding that St. Louis will repurchase the $9,500,000 Treasury notes at a later date and at the same prices, provided the notes shall not have been otherwise disposed of by the committee.

* * *"

Discount Rate Discussions. On April 4 the executive committee of the Federal Reserve Bank of Boston, the board of

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directors of the Federal Reserve Bank of New York, and the executive committee of the Federal Reserve Bank of Chicago, voted to establish rediscount rates of 6% for their respective banks. The Boston rate was taken under review by the Board, but the actions of the New York and Chicago banks were disapproved.

At the joint meeting of the Board with the Governors' Conference of April 4 there was a discussion of the question of rediscount rates, as a basis for which the Governors had informally agreed upon the following statement as a formula: "That no Federal Reserve Bank should have a rate below 5%, and that the rates of the Federal Reserve Banks in the principal financial centers should be raised to at least 6%."

Letter from Harrison to Board on Gold Movements, April 8. The following letter dated April 8, from the Governor of the New York Bank, was noted and ordered circulated at the meeting of the Board on April 9:

"I am writing to bring you up to date since our letters of March 6 and 8 concerning the gold movement to this country from Germany. Our previous letters dealt with the $3,000,000 held here under earmark for some time and released on March 6, the $7,960,000 bought by us on March 19 after the extension of an advance against this consignment in transit, and the $8,526,000 which arrived on March 25 and was bought by us on March 28. Practically all of these funds were paid out by us to the market upon instructions from the Reichsbank.

"On March 14 we received instructions from the Bank of France to release $5,007,000 of their gold and earmark it for the

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Reichsbank in consideration of a shipment of equal value received by the Bank of France in Paris from the Reichsbank. A second earmarking transaction of the same kind involving $7,096,000 was effected through the Bank of France on March 29, and another of $3,991,000 through the National Bank of Belgium on March 30. All of this gold earmarked for the Reichsbank was subsequently released and paid to the Street.

"Further earmarkings were effected as follows:

$12,182,000 on April 5, against gold delivered by the Reichsbank to the Bank of France,
and
$ 4,024,000 on April 6, arranged through the National Bank of Belgium.

"Today the Reichsbank asked us to release $12,182,000 gold from earmark and pay out an equivalent sum, so that tonight we will hold under earmark for them gold to the amount of only $4,024,000. I imagine we shall soon be asked to release this gold as well, and that further swaps with Continental Central Banks may be arranged in the near future if the strain on German exchange continues.

"The total of the gold involved in these transactions is $51,800,000 in round figures. In other words, the Reichsbank has lost that amount of gold since early March, and we have made a corresponding gain so far of $47,800,000.

"According to our figures the gold movement since the first of the year has been as follows taking into account exports, imports, and earmarking transactions:

"In January there was a net loss of $18,000,000, and in February and March net gains of $26,000,000 and $29,000,000 respectively, which makes a net gain for the first three months of the year of about $37,000,000. For the first week in April, we gained a further

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$11,000,000 to which we must add the $12,000,000 released today. This makes a total net gain since the first of the year of $60,000,000. If we add to this total the gold amounting to approximately $6,000,000 now on the way from Argentina, as well as the $4,000,000 now earmarked for the Reichsbank, which will probably be released in a few days, we arrive at a total gain of $70,000,000 since January 1, 1929."

Letter from New York Bank to Board, April 9. Under date of April 9 the following letter was received from the Deputy Governor of the Federal Reserve Bank of New York:

"The total holdings of Government securities in the System Account are the same as they were when I wrote you last, under date of April 2, 1929, namely $49,500,000, including the $9,500,000 of Treasury Notes which were temporarily taken over from the portfolio of the Federal Reserve Bank of St. Louis.

"The $4,000,000 Government securities held temporarily in our investment account here have been sold for delivery today. This will partially offset the effect of the release from earmark of gold, amounting to $6,000,000 yesterday and $5,700,000 today.

"There has been a still further reduction in the System bill holdings, the amount of acceptances held by this bank at present being only about $21,000,000 against $34,000,000 a week ago. Our rediscounts and advances, however, which had shown a large increase the previous week, are practically unchanged, being $278,000,000 at close of business April 8, against $276,000,000 on April 1.

"Time money is a bit difficult to obtain with rates nominally quoted at 9%. 10% is the closing rate today for call money."

On April 11 the directors of the Federal Reserve Bank of New York again voted to establish a rediscount rate of 6 per cent and the Board

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disapproved their action.

Letter from Harrison to Board on Gold Movements, April 11. Under date of April 13, the following letter was received from the Governor of the New York bank:

"Referring to my letter of April 8, to Governor Young concerning Reichsbank gold movements, I wish to advise you that we earmarked on Thursday for the Reichsbank approximately $16,000,000 gold, of which $12,000,000 was transferred from the gold deposit of the Bank of France with us and $4,000,000 from that of the National Bank of Belgium. In order to meet its requirements in the exchange market, the Reichsbank has instructed us to release from earmark all but $3,000,000 of the gold thus set aside for them. The equivalent has been paid to the 'Street."

"The pressure upon German exchange has been and is apparently still so strong that it has been necessary for the Reichsbank to supplement its recent exchanges of gold with the Bank of France and the National Bank of Belgium with a further direct shipment of gold to this country in order to obtain dollars. As I advised you over the telephone Thursday, we received a cable from the Reichsbank on that day that $6,437,076.74 of gold has been consigned to us on the S. S. "Stuttgart" which left Germany April 11. In response to their request we have made an advance against this gold similar to the advance made on a like shipment last month. This loan, which is for transit time only and carries a rate of interest of 5 per cent, is for 95 per cent of the value of the gold. It has been participated among the other Federal reserve banks in the same manner as was done in the previous case.

"In my letter of April 8, I mentioned the fact that recent gold transactions between the Reichsbank and this bank aggregated at that time

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about $51,800,000. Owing to the additional transfers and the current shipment referred to in this letter, the total sales of gold by the Reichsbank to us on this movement now amount to $71,000,000. It is difficult to say how much foreign exchange the Reichsbank has lost in addition to this large sum of gold. Their regular published statement shows only that part of their exchange holdings which is considered as legal cover; the balance is included in another account and is unidentifiable. If, however, we consider only that part of the foreign exchange holdings which is shown as legal cover, it appears that since the first of the year that item has declined approximately $30,000,000. Considering this portion of their foreign exchange holdings alone, their known loss in gold and exchange since the first of the year has been over $100,000,000 of which, as previously stated, over $70,000,000 is gold. This gold has all been lost since March 6.

"This experience of the Reichsbank while attributable in part to unusual factors peculiar to it, is another evidence of the continued pressure upon the foreign exchanges caused largely by the strain of high rates in this country and the closing of our bond market to foreign borrowers. While this foreign situation should not of itself be controlling upon ours, nevertheless, it cannot be overlooked. As I shall write you in a separate letter, it is important not only in its possible serious effect upon the future of the gold standard, which concerns us all, but also more directly in its effect upon foreign markets for our agricultural and other exportable products. It emphasizes the urgent need for speed in the correction of conditions which still make it impossible to lend our efforts towards easier money and the consequent opening of our bond market. It is still our belief that an increase in our rate will serve to hasten the time when

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this will be possible."

Letter from Harrison to Board on gold movements, April 16. Under date of April 16, Governor Harrison wrote the Board as follows:

"Referring to my letter of April 13 concerning Reichsbank gold movements, I am now writing to advise you of transactions which have taken place in the interim.

"At the time of my previous letter, the total sales of gold by the Reichsbank to us amounted to $71,776,000. This figure has since been increased to $84,250,000. In addition, there is a shipment of $6,500,000 gold on the way to New York and we have been advised that the Reichsbank expects $8,313,000 gold to be transferred to it by the National Bank of Belgium. When these two transactions have been consummated, the Reichsbank will have suffered a total loss of $99,063,000 gold. As German exchange continues to be under pressure and is quoted at 23.71½ cents which is below the theoretical gold point, I should imagine that the movement of gold from Germany to this country will continue."

Letter from New York Bank to Board, April 16. Deputy Governor Case addressed the following letter to the Board under date of April 16:

"Since I wrote to Governor Young last under date of April 9, 1929, sales of short-term Government securities from the Special Investment Account have been made in an endeavor to partially offset the effect of further releases of gold from earmarking. These sales have reached a total of $10,000,000, of which $4,500,000, representing sales to the market, have already been delivered, and the balance of $5,500,000 will be delivered to the Treasury on Wednesday, the 17th, payment for which will be made from moneys withdrawn from depositary banks.

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"It is hoped that we will be able to make further sales, in accordance with the previous authorization, in the near future, although the state of the short-term Government security market is such that we may experience some difficulty in disposing of the balance of securities held in the System Account (consisting entirely of $30,000,000 United States Treasury 3 1/2% notes of 1930-32).

* * *

"Our rediscounts and advances, which stood at $278,000,000 a week ago, totaled about $250,000,000 at the close of business last night.

"Even with the slowing up of the trading on the stock market there has been scarcely any change in money rates, although there has probably been a more plentiful supply of funds available."

Letter from Harrison to Board on gold movements, April 17. On April 17 Governor Harrison wrote the Board as follows:

"Yesterday I wrote to you concerning German gold movements and referred to the fact that we had bought from the Reichsbank since March 6 approximately $84,250,000 of gold. Of this amount about $52,700,000 was transferred to the Reichsbank from the gold deposit of the Bank of France with us against which the Reichsbank delivered gold to the Bank of France in Paris.

"We have just received a cable from the Bank of France that they would like to buy back from us the gold which they originally transferred to the Reichsbank and which was subsequently sold to us. In fact, today the Bank of France transferred to us from certain private banks $15,000,000 to be earmarked in gold and we shall probably receive the remaining $37,700,000 from the market within a few days to be set aside in gold for the Bank of France.

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"When the foregoing transactions have been completed, the gold amounting to $84,250,000 which we have gained from the Reichsbank will have been offset to the extent of $52,700,000. In other words, the Bank of France will have sold that latter amount of dollars to the Reichsbank who will have paid for the dollars by shipping gold to Paris. The Reichsbank will have used these dollars to support its exchange in exactly the same manner as they would have done if the gold had been shipped to New York and converted into dollars.

Further actions on discount rate increase. Action of the directors of the New York bank on April 18, in voting to establish a 6% rate, was again disapproved by the Board at a meeting on that day.

The Federal Advisory Council met on April 19 and submitted to the Board the following resolution which had been unanimously adopted by it:

"On February 15, 1929, the Federal Advisory Council adopted the following resolution:

'The Council believes that every effort should be made to correct the present situation in the speculative markets before resorting to an advance in rates'.

"The Council in reviewing present conditions finds that in spite of the cooperation of member banks the measures so far adopted have not been effective in correcting the present situation of the money market. The Council, therefore, recommends that the Federal Reserve Board permit the Federal reserve banks to raise their rediscount rates immediately and maintain a rate consistent with the cost of commercial credit."

On the same day the Ecard took under review action of the Executive Committee of the Federal Reserve Bank of Chicago in voting to establish a rate of 6 per cent.

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Letter from New York Bank to Board on gold movements, April 19. "In order to supplement Governor Harrison's letter of April 17 concerning German gold movements, I am writing to advise you that on Wednesday we placed under earmark for the Reichsbank $8,313,000 gold which was transferred from the gold deposit with us of the National Bank of Belgium, and on Thursday this gold was released from earmark by the Reichsbank in order that the proceeds might be paid to the market. This transaction increases to a total of $92,563,000 the gold which we have bought from the Reichsbank since March 6. As you know, there is a consignment of about $6,500,000 now on the way against which we have made the Reichsbank an advance and which will be liquidated early next week when the gold is due to arrive in New York. We have just been advised by the Reichsbank of an additional shipment of gold valued at $8,141,830.03 which is leaving Germany today on the s.s. 'Hamburg' and against which the Reichsbank has asked us to make them an advance of 95% of the value of the gold. This advance, which amounts to $7,734,738.53, is being made today, the terms and conditions being identical with the advance against the gold on the s.s. 'Stuttgart'.

"One further development in connection with this gold movement from Germany is the fact that the Reichsbank has cabled us that the National Bank of Belgium will place at their disposal with us an additional amount of gold valued at approximately $4,000,000. The Reichsbank is delivering the same amount of gold to the National Bank of Belgium in Brussels. If we include these two shipments now enroute from Germany and the gold to be transferred from the National Bank of Belgium, we reach a total of $111,205,000 which is the total amount of gold which the Reichsbank has lost in support of its exchange since early March.

"In his letter of April 17, Governor Harrison referred to the

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repurchase by the Bank of France of the $52,700,000 gold transferred by that institution to the Reichsbank. In consummation of this transaction we earmarked for the Bank of France $15,000,000 on Wednesday, $15,000,000 on Thursday, and we expect to earmark next week $7,000,000 on Tuesday, $7,000,000 on Wednesday, and $8,700,000 on Thursday."

Letter from New York Bank to Board on gold movements, April 22.

"Referring to my letter of April 19, concerning German gold movements, I am writing to advise you of developments in the interim. You will recall that on April 11 we made an advance of $6,115,222.90 to the Reichsbank against a consignment of gold on the S. S. 'Stuttgart.' This consignment arrived in New York today and was immediately sold to the United States Assay Office, the proceeds being used to liquidate the advance.

"On Saturday we transferred $3,991,000 earmarked gold from the National Bank of Belgium to the Reichsbank and today this gold was released from earmark by the Reichsbank and the proceeds paid to the market. The Bank of France instructed us today to transfer from its gold deposit to that of the Reichsbank $25,300,000 gold and of this amount $8,000,000 gold was released from earmark by the Reichsbank. Furthermore, we have received a cable from the Reichsbank that they expect to receive $12,153,000 gold from the National Bank of Belgium. We have received no instructions from the National Bank of Belgium today but will undoubtedly hear from them tomorrow.

"We have now purchased from the Reichsbank since March 6 a total of $110,994,000 gold. If we add to that sum the shipment now en route, the $17,300,000 which we shall hold under earmark for the Reichsbank tonight and the $12,153,000 which the Reichsbank expects to receive from the National Bank of Belgium, we arrive at a total figure of $148,547,000.

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"You have probably observed that on Friday following the reported failure of the Reparations negotiations in Paris, German exchange dropped to 23.70 and, except for a fractional advance on Saturday, has remained at that figure today, so that we should expect a continuation of this gold movement from Germany since the reichsmark is considerably below our gold import point."

Letter from New York Bank to Board, April 23. On April 23 the Deputy Governor of the New York Bank wrote the Board as follows:

"Since I wrote you under date of April 16, 1929, further sales, aggregating $10,000,000, have been made from the System Special Investment Account, for the purpose of partially offsetting the effect of the recent imports of gold and releases from earmarkings. The holdings in the Account are now $20,000,000, exclusive of the $9,500,000 of notes held temporarily for the Federal Reserve Bank of St. Louis. The market for Government securities has become a trifle stronger, with some demand for the 3-1/2% notes of 1930-32 which we hold, so that we may presently be able to make further sales to advantage.

* * *"

At a meeting of the Board on April 24, the Chairman of the Federal Reserve Bank of New York conferred with the Board regarding the desire of the directors of that bank to establish a rate of 6 per cent. He was advised of the opinion of a majority of the Board that approval of an increase in discount rates would be confession of the inability of the System to deal with a limited numberof member banks who are misusing its facilities other than by imposing the penalty of increased rates upon the entire banking and business structure of the country.

Letter from Harrison to Board on gold movements, April 24. On the

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same day the Governor of the New York Bank wrote the Board as follows:

"Since our letter of April 22 concerning German gold movements there have been one or two developments which I think will be of interest to you.

"We have received instructions from the National Bank of Belgium to transfer $12,154,000 from their gold deposit with us to that of the Reichsbank. This makes a total of $36,530,000 gold which the Reichsbank has received in New York against a corresponding amount delivered to the National Bank of Belgium in Brussels while the amount of gold swapped in a similar manner between the Reichsbank and the Bank of France now aggregates $78,012,000.

"Yesterday we released from earmark for the Reichsbank $8,000,000 and today $5,000,000 in order to make payments for their account to the market and those transactions increase to a total of $123,993,000 the amount of gold which we have purchased from the Reichsbank since March 6. The Reichsbank will have under earmark with us tonight approximately $16,474,000 gold and as we have been advised of no further direct shipments of gold from Germany to New York, other than the $8,100,000 now in transit, the aggregate figure of all these gold transactions with the Reichsbank since March 6 is still approximately $148,000,000.

"I referred in one of my previous letters on this subject to the desire of the Bank of France to buy back from us the gold which they transferred to the Reichsbank and which was subsequently sold by the latter to us. This procedure is being adhered to and in addition to the earmarking transactions enumerated in the last paragraph of our letter of April 19 we expect to set aside in gold for the Bank of France $8,000,000 on April 26 and a like amount on April 30.

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"You have doubtless been advised that the Austrian National Bank and the Hungarian National Bank have both increased their discount rates by 1%, that of the former institution now being 7-1/2% and that of the latter 8%. Both of these advances are further evidence of the general tendency toward high interest rates in Europe and I think are largely attributable to our own credit situation. Both of these central banks have had to increase their rates to protect their reserves. . . .

"I have just been confidentially advised by the Reichsbank that their discount rate will probably be increased from 6-1/2% to 7-1/2% tomorrow."

Further actions on discount rate and use of moral suasion. On April 25 the Board took under review action of the board of directors of the Federal Reserve Bank of Boston in voting to establish a 6 per cent rediscount rate, and disapproved similar action by the directors of the Federal Reserve Bank of New York. On April 26 action by the directors of the Federal Reserve Bank of Chicago in establishing a rate of 6 per cent was disapproved.

At the meeting on April 30 the Board addressed to the Federal Reserve Bank of Philadelphia a form of letter which had been under consideration for a week or more, requesting further and fuller cooperation in the Board's policy of preventing the misuse of the discount facilities of the Federal Reserve System. During the ensuing few days similar letters were addressed to other Federal Reserve banks.

Letter from Harrison to Board on gold movements, April 30. Under date of April 30 the following letter was received from the Governor of the New York Bank:

"I would like to confirm what I told you on the telephone yesterday

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morning to the effect that we received advice from the Reichsbank yesterday that they were shipping to us $8,994,000 gold bars on the steamer 'Berlin' and $6,689,000 on the steamer 'Reliance' and that we were advancing yesterday 95 per cent of the value of these two consignments under the usual terms and conditions.

"In addition to these two shipments of gold, the Reichsbank yesterday received $25,400,000 gold in a swap with the Bank of France and we understand that there will be a further swap of about $25,000,000 with the Bank of France, probably today. This will increase to $128,412,000 the total swaps of gold between the Reichsbank and the Bank of France on this movement.

"As I have previously advised you, the Bank of France has been repurchasing from us the gold which they have thus transferred to the Reichsbank. The total amount repurchased or engaged for repurchase is $78,014,000. We have now been advised, however, that they do not care to repurchase any further amounts sold to the Reichsbank. Consequently, when gold now held by the Reichsbank is released from earmark and the proceeds paid to the market it will result in a gain to the market pro tanto and will not be offset by earmarkings for the Bank of France unless there is some change in their present plans.

"If we include the two consignments of gold now on the way from Germany to New York, as well as the gold which the Reichsbank has under earmark and the swap of about $25,000,000 which we anticipate will take place today, the total gold loss suffered by the Reichsbank since March 6 is $214,692,000. . . .

* * *

"Of these total amounts, all but $63,204,000 had been paid to the market up to last night either directly, or indirectly through the Agent

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General. The Reichsbank this morning has $9,400,000 gold under earmark and $28,804,000 in current account."

Letter from New York Bank to Board, April 30. On the same day the Deputy Governor of the New York Bank sent the following letter to the Board:

"Since I wrote you on April 23, a further sale of $2,500,000 has been made from the holdings of the System Special Investment Account as a partial offset to recent imports of gold and releases from earmarkings. This sale reduced the holdings of the System Account on April 24 to $17,500,000, exclusive of the Treasury notes being held temporarily for the Federal Reserve Bank of St. Louis. On April 26 the St. Louis bank repurchased $3,500,000 of the $9,500,000 notes taken over from them recently, thereby reducing the amount of notes being held temporarily for them to $6,000,000. We took over from a foreign correspondent yesterday $1,040,000 of the 4-1/2% Treasury certificates maturing June 15, 1929, which certificates are being held temporarily in our own investment account.

"With the tightening of money rates due to the month-end requirements and accompanying a falling off in the demand for Government securities, no further sales of securities have been made from the System Account, so that the holdings of Government securities by the System will probably show very little change for the statement week ending May 1, 1929.

"The amount of bills held outright by the System at the close of business last Wednesday, April 24, amounted to approximately $116,500,000 or $6,500,000 less than at the end of the preceding week. It is likely, however, that our own bill portfolio will show an increase for the week ending May 1, due to the acquisition of a block of bills which mature within a week and which, because of their early maturity, it would be impracticable to apportion to other reserve banks."

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Inquiry from Board concerning acquisition of acceptances, May 4. Consideration of this letter resulted in the following inquiry being made of the New York Bank, under date of May 4:

"Receipt is acknowledged of your letter of April 30th, advising of a further sale of $2,500,000 made from the Open Market Investment Account, which reduced the total of that account to $17,500,000, exclusive of the Treasury notes held temporarily for the Federal Reserve Bank of St. Louis, the amount of which has been reduced to $6,000,000 by the repurchase of $3,500,000 by the St. Louis Bank.

"When your letter was read to the Board, it noted particularly your advice of the acquisition of a block of acceptances maturing within a week, which because of their early maturity are being held in your own portfolio rather than apportioned among the other reserve banks. This transaction undoubtedly accounts for the substantial increase in the bill holdings of the System shown in the May 2nd statement, and the Board would be interested in learning of the circumstances which surrounded the purchase, including advice as to from whom the bills were acquired. It would be appreciated if you would write me fully regarding the matter."

On May 1 the directors of the Federal Reserve Bank of Philadelphia again voted and the Board disapproved the establishment of a rediscount rate of 6 per cent. Similar action was taken the following day regarding the rate of the New York Bank.

Reply of New York Bank, May 6. The Board's inquiry of the New York Bank, above referred to, was answered in the following letter, dated May 6, from the Deputy Governor of the Bank:

"I have your letter of May 4 requesting information regarding our recent operations in bills which resulted in the substantial portfolio

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increase reflected in the statement of May 1.

"The published statement for the System showed an increase during the week ending May 1 of $29,000,000, of which about $26,000,000 occurred in New York. Of the $26,000,000, $16,000,000 was an increase in sales contracts, $9,000,000 of the balance was an increase in bills bought outright maturing within fifteen days, and there was an increase of about $1,000,000 in bills bought running over ninety days. The circumstances which led to these increases were:

"(1) The sale to the market on April 29 by one of the largest private banking houses of between $19,000,000 and $20,000,000 of bills maturing within thirty days which the house had carried for some weeks or months. The Discount Corporation, which made the purchase, informed us that the house was selling the bills in preparation for May 1 disbursements. Under the conditions then existing in the money market, it was necessary for the Discount Corporation to come to us for the bulk of the money required to take over that parcel. This we supplied by buying outright about $7,000,000 of the bills, which would mature on or before the 8th of May, and by buying under sales contract an additional $10,000,000 of them.

"(2) Further increases in sales contracts were made necessary by the difficult condition of the money market which caused loans to discount houses against bills to be called over the end of the month, and also by a considerable increase in the volume of new bills offered to the market with a coincident slackening of the investment demand.

"The third reason for our considerable increase was the discount with us by some of our foreign correspondents of about $7,500,000 of bills during the week, most of which were very short but a million or more of which ran over ninety days. These were practically all for German account and had

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to be taken into our portfolio rather than sold in the market or distributed among the other reserve banks because they were indorsed directly to us by our correspondent who had bought them abroad and previously had remitted them to us for collection.

"Since April 24, when dealers' portfolios were $35,000,000, they had increased by May 1 to $53,000,000, and today will probably run to $65,000,000. During this two weeks period, which followed a lull in the issuing of new bills, resumption of grain exports has brought a large volume of new thirty day bills into the market for which there is little investment demand as compared with the ninety day maturities which are relatively scarce and for which a good demand exists. This has brought about a condition new to this market and the dealers advanced the rates on short bills considerably above the rates at which ninety day bills are bought and sold. In these conditions we can buy and have bought today for our foreign correspondents in replacing maturities thirty day bills at 5½%, as against 5¼%, the best rate at which we could buy nineties. We rather expect that a few days of our buying short bills for foreign banks will relieve the market of the over supply of short maturities and permit dealers to accumulate a moderate amount of ninety day bills; and if the volume of nineties increases substantially we would expect the rates for them to go us to 5½% where they were until April 21 when dealers reduced their rates to attract bills for which there was an insistent investment demand, principally on account of foreign banks' buying through their correspondents in America. It looks to us as if the volume of new drawings might equal if not exceed expiring credits as with the advancing costs of other methods of financing there seems to be a shift from bank loans into acceptance credits, notably against warehoused cotton and in automobile exports, as well as the grain movement

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which is now substantial from the Argentine.

"I trust that the above gives you a clear picture of the discount market of the past two weeks, during which time money has been much in demand at rates which have ranged from 10 to 16% since April 25."

(Secretary's Note: The Federal Reserve Bank of Kansas City, on May 6, with the approval of the Board, established a rediscount rate of 5 per cent, leaving only two banks, Minneapolis and San Francisco with a rate of 4-1/2 per cent.)

Under date of May 3 and 6 the Deputy Governor of the Federal Reserve Bank of New York reported increases in bill rates by dealers in New York City, but stated that the Federal Reserve Bank did not expect to increase its rates at the time.

On May 9 the Board again disapproved action of the directors of the Federal Reserve Bank of New York in voting to establish a rediscount rate of 6 percent.

(Secretary's Note: The Federal Reserve Bank of Minneapolis, on May 14, with the approval of the Board, increased its rediscount rate from 4-1/2 per cent to 5 per cent.)

Letter from New York Bank to Board, May 14. Under date of May 14, the following letter was addressed to the Board by the Deputy Governor of the Federal Reserve Bank of New York:

"There has been no change in the holdings of Government securities in the System Account since my letter to Mr. Platt dated April 30, 1929, aside from the repurchase by the Federal Reserve Bank of St. Louis of $3,000,000 of short-term Governments which were temporarily taken over in the System Account, the holdings in the latter now being $20,500,000 inclusive of a further balance of $3,000,000 belonging to the St. Louis bank. . . ."

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On May 15, action of the directors of the Federal Reserve Banks of Boston and Philadelphia in voting to establish rediscount rates of 6 per cent was taken under review by the Board.

On May 16, action of the New York directors in establishing a rate of 6 per cent was disapproved, and the action of the Boston and Philadelphia directors was continued under review.

The following day the Board took under review similar action by the Executive Committee of the Federal Reserve Bank of Chicago.

(Secretary's Note: Effective May 20, the Federal Reserve Bank of San Francisco, the last bank maintaining a rate of 4-1/2 per cent, increased its rate to 5 per cent.)

Letter from New York Bank to Board, May 21. Under date of May 21 the following letter was adressed to the Board by the Deputy Governor of the New York Bank:

"There has been no change in the holdings of Government securities in the System Account since I wrote you last on May 14, 1929, the amount held being $20,500,000, inclusive of the balance of $3,000,000 belonging to the Federal Reserve Bank of St. Louis. . . ."

Memorandum of Federal Advisory Council on discount rate action. On May 21 the Federal Advisory Council met and adopted the following memorandum which was submitted to the Board with authority to release to the press:

"The Federal Advisory Council at a regular meeting with the Federal Reserve Board on Tuesday, May 21st, delivered the following memorandum of its views on the credit situation, which it authorized the Federal Reserve Board to release:

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"'The Federal Advisory Council has reviewed carefully the credit situation. It continues to agree with the view of the Federal Reserve Board expressed in its statement of February 5, 1929, that "an excessive amount of the country's credit has been absorbed in speculative security loans." The policy pursued by the Federal Reserve Board has had a beneficial effect due largely to the loyal cooperation of the banks of the country. The efforts in this direction should be continued. The Council notes, however, that while the total amount of Federal Reserve credit being used has been reduced, "the amount of the country's credit absorbed in speculative security loans" has not been substantially lowered.

"'Therefore, the Council recommends to the Federal Reserve Board that it now grant permission to raise the rediscount rates to six per cent to those Federal reserve banks requesting it, thus bringing the rediscount rates into closer relation with generally prevailing commercial money rates. The Council believes that improvement in financial conditions and a consequent reduction of the rate structure will thereby be brought about more quickly, thus best safeguarding commerce, industry, and agriculture.'"

Further consideration of increase in discount rate. Mr. McGarrah and Governor Harrison, who were present at the meeting of the Federal Reserve Board on May 22, discussed with the Board in detail the general business and credit situation and the question of an advance in the rate of the New York Bank.

Mr. McGarrah pointed out that an advance in the discount rate to 6 per cent is part of a machinery which the directors of the New York Bank would like to put in operation for the purpose of gaining control of the money market with a view to relaxation of the pressure which has been upon the market in time to meet the demands for credit in connection with the

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moving of crops and fall business.

In reply to an inquiry as to the program which the New York Bank might follow, Mr. Harrison pointed out that at the present time member banks in New York City are very reluctant, due to the policy of direct action, to borrow from the Federal Reserve Bank for any purpose, preferring to pay as high as 7 per cent for Federal Reserve funds on the outside; that with the establishment of a rate of 6 per cent there could be an understanding between the Federal Reserve Bank and its member banks that at that rate, which would exercise some restraint, the member banks might come to the Federal Reserve Bank for assistance in meeting commercial demands upon them; that after watching developments toward the end of the summer it might be possible to enter upon an easing program through the purchase of securities, bills or foreign exchange, whichever might be considered most advisable, with the hope ultimately of reducing the rate, without stimulating speculation as would probably occur should a program of relaxation be undertaken under the present setup.

On May 23, at the time consideration was being given to action of the New York directors in again voting to establish a 6 per cent rate, certain members of the Board expressed the opinion that the policy which had been pursued by the System had been effective, as evidenced by the existing credit situation, but questioned whether the relaxation which should be brought about to facilitate the meeting of fall demands for credit would be aided by an increase in rate, particularly outside of New York City. The suggestion was made that a rate of 6 per cent might be justified if some plan could be worked out looking toward the establishment of a rate on acceptances of 5 per cent or even 4-1/2 per cent during the fall to meet current requirements for business and crop-moving. The

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action of the New York directors was disapproved, and, at the same time, the Governor was authorized, until such time as the majority of the Board changed its position, to take under review or disapprove any rediscount rate of 6 per cent established by a Federal Reserve bank, whichever might be preferred by the individual bank taking the action. Under this authority, action of the directors of the Chicago Bank on May 24 was taken under review.

Letter from New York Bank to Board, May 28. Under date of May 28 the following letter was addressed to the Board by the Deputy Governor of the New York Bank:

"I wrote you last on May 21, 1929, since which time there has been no activity in the Open Market Investment Account, the amount of the Government securities held remaining at $20,500,000. . . ."

Further discussion of discount and buying rates. At the meeting of the Board on May 28 there was discussion with respect to the acceptance market and the question of bill purchases should it be determined to pursue a policy of relaxation in dealing with credit conditions. It was pointed out that if dealers were advised that the Federal Reserve bank was in the market for bills, offerings might be received at existing rates. It was suggested that otherwise buying rates might be reduced with the understanding, of course, that restraint through a change in rate or otherwise would be exercised if a tendency developed to bring too many bills to the Federal Reserve bank. Some members of the Board favored a policy of relaxation through bill purchases along with the maintenance of the present rediscount rate, while others expressed the opinion that if a policy could be agreed upon, an increase to 6 per cent in the rate of some of the Federal Reserve banks might be justified.

At the same meeting it was voted to continue under review action

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of the directors of the Federal Reserve Bank of Boston in voting to establish a rate of 6 per cent, reconsideration of the matter having been requested by the Boston Bank.

The next day, May 29, following a meeting of the directors of the Federal Reserve Bank of New York, it was reported to the Board that the directors had decided not to take action regarding the rate of the bank, feeling that the credit situation was at a point where any action taken must be by the System as a whole.

On that date the earning assets of the System totaled $1,259,000,000, including $145,000,000 of securities, $118,000,000 of bills bought in the open market and $988,000,000 of rediscounts.

Meeting between Board and New York Bank Representatives on Discount Rate and Administration of Discount Mechanism, June 5.

Letter from New York Bank to Board, May 29. On June 1, 1929 the Board voted to extend an invitation to the directors of the Federal Reserve Bank of New York to meet in conference with the Board in Washington at as early a date as may be convenient to them, or, should it be impracticable for the New York directors to come to Washington as a board, to appoint a committee for the purpose. This action was taken after consideration of the following letter dated May 31, from the Chairman of the New York bank, prepared as a result of deliberations at the directors meeting held on May 29:

"It is the belief of the directors of this bank that the Federal Reserve Board policy of seeking the control of credit without an increase in the discount rate and otherwise as generally understood, has created much uncertainty throughout the country, and that the bringing of the Federal Reserve Board and this bank into harmony with respect to a program which

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will remove uncertainty is essential to the restoration of confidence and the development of a situation where a relaxation of credit in the interest of the country as a whole may be more quickly permitted. They believe that at the moment the agreement upon a mutually satisfactory program is far more important than the discount rate.

"For months the directors of this bank have voted a rate which they have regarded as one that would be a more effective rate and that would more quickly make lower rates possible. Their action has been disapproved by the Federal Reserve Board. In view of recent changes in the business and credit situation, we believe that a rate change now without a mutually satisfactory program might only aggravate existing tendencies.

"With this in view, and in the interest of trade, industry, and agriculture, we believe that it may soon be necessary

"(1) To establish a less restrictive discount policy in order that member banks may more freely borrow for the proper conduct of their business.

"(2) To correct the widely understood intimation of the Federal Reserve Board that collateral loans are not a proper function of legitimate banking.

"(3) To be prepared to increase the Federal Reserve bank portfolios if and when any real need of doing so becomes apparent.

"These steps may be necessary in order to restore business confidence, permit of the reopening of a bond market, and to make funds more freely available to finance our export trade, especially in agricultural products at the time of crop movement.

"Whether all this can safely be done without a firm rate control policy we are prepared to discuss, but a longer discussion as to the discount

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rate without a real understanding regarding a future program we regard as futile. Our directors, therefore, refrain from rate action in the hope that a general policy in which both we and the Board can concur may be quickly determined."

On June 3 action of the Executive Committee of the Federal Reserve Bank of Chicago in voting to establish a 6 per cent rate was taken under review.

Discussion. At the meeting of the Board on June 5, Messrs. McGarrah, Mitchell, Reyburn and Treman, directors of the Federal Reserve Bank of New York, and Governor Harrison were present.

Mr. McGarrah referred to the action of the directors of the Federal Reserve Bank of New York at their meeting last Wednesday in not making the recommendation of an increase in rate, which they have made regularly during the past several months, and in addressing a letter to the Board regarding the credit situation, containing a suggestion that further discussion as to the discount rate without an understanding regarding the future program of the System is futile. He stated that the New York committee has come to Washington in response to the invitation extended by the Board, with the idea that the Board may have some suggestion to make as to what the future policy should be.

The members of the New York committee and the Board then engaged in a detailed discussion regarding the present and prospective credit situation; the probable desirability of some relaxation in Federal Reserve credit policy in the near future and the method by which such relaxation could best be accomplished. Members of the New York committee pointed out that the action of the directors at their last meeting in making no recommendation for an increase in discount rate should not be understood to indicate any change in

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their attitude as to the policy which should have been followed by the System during the past several months, but as an effort to reach a common ground with the Board on the basis of which to consider future policy. Members of the Board indicated that should any program decided upon for the immediate future include some easing in the policy of direct action, that should not be construed as an abondonment of the policy but merely a suspension of its strict application in the interests of the general credit situation.

Mitchell's views. Near the conclusion of the discussion, Mr. Mitchell outlined his views, as follows, from a pencil memorandum which he had prepared during the discussion and the Chairman suggested that a copy of the memorandum be left with the Board:

"1. Facts clearly indicate the necessity for

(a) An increase in security borrowing between now and July 10.
(b) An increase in agricultural borrowing in the late summer.
(c) Readjustment of credits over July 1 by reason of dividend interest and currency requirements and by reason of the proverbial window dressing that will create a heavy strain especially in New York.

"2. All this points to the definite necessity of increased rediscounting of member banks, and if such rediscounts become so excessively large as to unduly tighten the banking system, then such relief must come through some release of Federal Reserve credit, through the purchase of bills, or government securities, or both.

"3. If such increase in rediscounts and Federal Reserve portfolios leads to an undue increase in loans either through giving an incentive to security speculation, land speculation, trade inventory speculation or agricultural product speculation, then a rate increase is justified, perhaps several increases with always a willingness to reduce rates as easier

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conditions justify.

"4. This will involve a change of Reserve policy that should be publicly understood but it must be made clear to the country, not through an announcement indicating that the desired goal of the Reserve Board has now been reached and the deduction made by the public that 'the lid is off', but an announcement that the Federal Reserve Board and the Banks are now in accord regarding facts and future program and indicating that the Reserve System will during coming months, express itself through the rediscount rate - always working toward the goal of sound business, sound banking and ultimate ease of credit."

Communications on Open Market Operations and Discounts and Discount Rate Policy, June - Early August 1929.

Letter from New York Bank to Board, June 5. On the same date, June 5, the following letter was addressed to the Board by the Deputy Governor of the New York Bank:

"The changes in the Open Market Investment Account since May 28, 1929, the date of my last letter to you on this subject, have been as follows:

"We have taken over temporarily, from the portfolio of the Federal Reserve Bank of St. Louis, $7,125,000 of Liberty Loan and Treasury bonds, and from the Federal Reserve Bank of Kansas City $5,000,000 of 4% Treasury bonds. The Federal Reserve Bank of St. Louis wished to be relieved temporarily of its Government security holdings, due to the special demand which it has at this season of the year. Kansas City, owing to its low reserve position, wished to sell its individual holdings of Government securities which amounted to $7,755,700. Of this amount, $2,755,700 was sold in the market, but as the long-term Government security market has

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been in a rather demoralized condition it has not been feasible to make an immediate sale of these bonds. In order to provide the Kansas City bank with the funds desired, this $5,000,000 has temporarily been taken over into the System Account for sale as and when market conditions will permit. . . ."

Letter from New York Bank to Board, June 11. Under date of June 11, the Board received the following letter from Deputy Governor Case:

"There have been two changes in the Open Market Investment Account since the date of my last letter to you on this subject, June 5, as follows:

"The sale of $3,000,000 of United States Treasury 4% bonds recently taken over into the Open Market Investment Account from the Federal Reserve Bank of Kansas City for sale to the market as opportunity affords; and the taking back by the Federal Reserve Bank of St. Louis of $2,125,000 of Government securities which were temporarily held for that bank in the System Account. These transactions will bring the holdings in the account down to $27,500,000 as against $32,625,000 a week ago. . . ."

Letter from Board to New York Bank on discount policy, June 12. At the meeting on June 11 the Board discussed in detail credit conditions and the policy which should be pursued by the Federal Reserve System during the ensuing months. Messrs. Miller and Cunningham submitted memoranda of their personal views on the subject which were referred to a special committee, consisting of the Governor and Mr. Cunningham, with the request that it endeavor to work out an outline of a future policy for submission to the Board at a meeting within the next few days. This committee reported at a meeting of the Board on June 12, with the result that the following letter, addressed to the Chairman of the board of directors of the Federal Reserve Bank of New York was approved for personal presentation by the

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Governor and Mr. Cunningham:

"The Federal Reserve Board has given further consideration to the question of future program. The Board thoroughly realizes that many factors now unforeseen may enter into the credit situation during the coming months. However, it believes that at the moment there is a possibility of carrying out a program for the future months without an immediate raise in the discount rate or, at this writing, easing the situation either by the purchase of bills or Government securities.

"Therefore, in an effort to develop a mutually satisfactory program, the Board suggests the following for your consideration, with the hope that no unforeseen developments will occur which will prompt anyone to change his position:

"Since February the policy of the Federal Reserve System has expressed itself primarily through what is called 'direct action' and this position was taken deliberately by the Federal Reserve Board. To this position it holds fast. It is satisfied with the reasonableness of its policy and with its necessity, even though the methods and degree of application may be controversial.

"The Board, after a careful review of the credit situation, finds that the increased demand for credit to meet mid-year requirements and also the credit demands for early autumn will probably require member banks to increase their rediscounts at the Federal reserve banks. This situation will be better served by a temporary suspension of a rigid policy of direct pressure, which, however, should not be abandoned, but rather tempered in order to permit member banks that have not found it practicable to readjust their position in accordance with the Board's principle, to avail themselves of the rediscount facilities of the Federal reserve banks for the

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purpose of avoiding, as far as possible, any undue strain or any unnecessary increase in the cost of credit in meeting the seasonable needs of agriculture, industry and commerce.

"If such rediscounts become excessively large so as to unduly tighten the credit situation to a point where it acts as a deterrent to business and there are no other unsatisfactory factors in the situation, relief should be given through some release of Federal reserve credit, preferably through the purchase of bills, but if it should appear at the time that such relief is not adequate or practicable, then, the Federal Reserve Board would be glad to give consideration to supplementing the relief through the purchase of short-time Government securities.

"In suggesting this program for the future months, the Board is not unmindful that a limited number of member banks may expand undesirable loans upon Federal reserve credit to a point which would not be justified by conditions and circumstances surrounding these institutions, and in such cases the Board would expect the Federal reserve banks to resort to the usual direct action.

"Again, if such increase in rediscounts and Federal reserve portfolios leads to an undue increase in loans having the earmarks of unsound banking practice in any great number of member banks where direct action can not be applied simultaneously and quickly enough to protect the general credit situation, the Board would be glad to consider other corrective measures.

"The Board would be glad to hear the views of your directors after they have considered this outline."

Letter from New York Bank to Board on discount and discount rate policy, June 13. At the meeting of the directors of the Federal Reserve

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Bank of New York on June 13, the Board's letter was presented by the committee, which, upon its return to Washington, presented to the Board at its meeting on June 14 the following letter signed by the Governor of the bank:

"Our directors have considered with interest the report of the discussion which some of them had with the Federal Reserve Board on June 5, relative to a possible program to handle present and prospective credit problems.

"In the face of conditions as they now appear, it seems likely

"(a) That there will be an increase in security borrowing throughout the country between now and the early part of July.

"(b) That there will be a large readjustment of credit over July 1 by reason of interest, dividend and currency requirements and by reason of window dressing, that may create a heavy strain upon the banks in financial centers, especially in New York.

"(c) That there will be an increase in agricultural borrowing as the summer advances.

"With these facts in mind the directors, as they now view the situation, believe in a general way

"(a) That there will be a necessity for an increase in the rediscounts by member banks in this district and that member banks must be permitted to borrow from the Federal Reserve Bank for the proper conduct of their business, regardless of the fact that they may have substantial amounts of collateral loans outstanding.

"(b) That if rediscounts required by the conditions above referred to become so large as to cause an undue credit strain then the Federal Reserve Bank might well be prepared, if necessary, to give temporary relief through open market operations in bills, government securities, or both, as

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the occasion warrants.

"(c) That if for any reason, whether through the release of additional Federal reserve credit through rediscounts, or through possible later open market operations, or for any other reason, there should be renewed evidence of an excessive demand for credit, due to speculation in securities or to speculation in land, building, trade inventories, or commodities, then the remedy of increased discount rates should be applied promptly and vigorously in the interest of sound banking and the ultimate ease of credit.

"(d) That any such rate increase or increases, if required should of course be made only with the expectation that rates will be reduced as promptly as conditions permit.

"Our directors feel that it is difficult, if not impossible, definitely to lay out any very specific credit program much in advance inasmuch as such a program might necessarily have to be changed in accordance with conditions as they develop. They believe, however, that if the above steps, designed to take care of mid-year and seasonal needs, are taken without the protection of a higher discount rate, such as they have felt would have been desirable in order more quickly and safely to permit of relaxation in credit conditions, the System must then be prepared to resort to immediate rate action in the event of the possibilities pointed out above.

"This letter will in substance confirm what I told you on the telephone on June 10, 1929, concerning the views of our directors."

The Governor reported that during his visit in New York, he learned the buying rate of the bank on 30 day bills was considered to be somewhat out of line with the market but that inasmuch as the New York bank was not getting many bills, and had no objection to accumulating some, no action

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had been taken to change the rate.

Letter from New York Bank to Board, June 19. Deputy Governor Case wrote the Board under date of June 19 as follows:

"The total holdings in the Open Market Investment Account have shown a further reduction since I wrote you on June 11. During the week a sale was made to the market of the balance of $2,000,000 of the $5,000,000 United States Treasury 4% bonds of 1944-54, which had been taken over recently into the Open Market Investment Account from the Federal Reserve Bank of Kansas City. There was also sold back to the Federal Reserve Bank of St. Louis, from the securities which we were holding, $3,000,000 of the 3-1/2% Treasury notes due March 15, 1930-32. These transactions left the total holdings in the account at $22,500,000, as compared with $27,500,000 a week ago. Included in the present holdings is the $5,000,000 of Fourth Liberty Loan bonds, representing the balance of the securities still being held temporarily for the Federal Reserve Bank of St. Louis. . . ."

Letter from New York Bank to Board on discount policy, June 20. At the meeting of the Board on June 20, Governor Young suggested the desirability of acquainting the Federal Reserve banks with the attitude of the Board in the matter of the credit policy to be followed by the System during ensuing months, particularly in connection with the fall demands for the movement of crops, as set out in the letter to the Chairman of the Federal Reserve Bank of New York, approved at the meeting of the Board on June 12. He also suggested a conference with the Governors of the Federal Reserve banks, the advisability of which was questioned by some of the members of the Board, although all were in agreement that the Federal Reserve banks should be advised of the attitude of the Board as expressed in the letter to the Federal Reserve Bank of New York.

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A letter to all Federal Reserve banks, calling a conference in Washington on July 10, was approved at the meeting on June 21, at which consideration was also given to the following letter from the Chairman of the Federal Reserve Bank of New York, dated June 20:

"I have received your letter of June 14, enclosing your letter of June 12, which you read to our directors last week for the purpose of giving them an opportunity to state their views.

"Quite apart from its discussion of an immediate credit policy such as that outlined in our letter of June 12, your letter raises certain questions of principle and jurisdiction concerning which our directors expressed their opinions when you presented your letter orally. For reasons which they gave you at that time their views on these questions quite evidently differ from those of the Federal Reserve Board. They feel, however, that as important as these questions are for the future, it would seem to be better to leave them for consideration as and when they arise than to attempt to discuss them further now at the risk of prejudicing an immediate course of action which our directors and the Federal Reserve Board apparently agree should be followed at the present time in the best interests of agriculture, industry and commerce.

"The Board is already familiar with the views of the officers and directors of this bank with regard to the relative positions which the discount rate and so-called direct action should play in Federal reserve credit policies. The important fact now, it seems to us, is that the Board's letter of June 12 and our letter of the same date to the Board, agree in substance as to the immediate course to be pursued, a course which necessarily involves some modification of the Board's policy of direct action of the past few months in order that member banks might rediscount with the

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Federal reserve bank to meet mid-year requirements and the demands for credit during the late summer and early fall."

Letter from Board to Reserve Banks on discount policy, June 24. As a result of this consideration, it was deemed unnecessary to hold a conference at as early a date as July 10 and at the meeting on June 24, the proposed letter to all Federal Reserve banks was ordered transmitted in the following form:

"Conditions in the different Federal Reserve districts as they affect the prospective need of Federal Reserve accommodation in the autumn, particularly such as is incidental to the handling and marketing of the crops, appear to the Board to merit some general as well as local consideration.

"It is, of course, realized that any survey of conditions and needs made at this time must be of a tentative and provisional character. It, nevertheless, seems to the Board that a preliminary canvass of the situation, both in its local and general aspects, can soon profitably be undertaken.

"These matters have been having the attention of the Board, and in informal conference and recent correspondence with the Federal Reserve Bank of New York the Board outlined its attitude as follows:

"'Since February the policy of the Federal Reserve System has expressed itself primarily through what is called "direct action" and this position was taken deliberately by the Federal Reserve Board. To this position it holds fast. It is satisfied with the reasonableness of its policy and with its necessity, even though the methods and degree of application may be controversial.

"'The Board, after a careful review of the credit situation, finds

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that the increased demand for credit to meet mid-year requirements and also the credit demands for early autumn will probably require member banks to increase their rediscounts at the Federal reserve banks. This situation will be better served by a temporary suspension of a rigid policy of direct pressure, which, however, should not be abandoned, but rather tempered in order to permit member banks that have not found it practicable to readjust their position in accordance with the Board's principle, to avail themselves of the rediscount facilities of the Federal reserve banks for the purpose of avoiding, as far as possible, any undue strain or any unnecessary increase in the cost of credit in meeting the seasonal needs of agriculture, industry and commerce.

"'If such rediscounts become excessively large so as to unduly tighten the credit situation to a point where it acts as a deterrent to business and there are no other unsatisfactory factors in the situation, relief should be given through some release of Federal reserve credit, preferably through the purchase of bills, but if it should appear at the time that such relief is not adequate or practicable, then, the Federal Reserve Board would be glad to give consideration to supplementing the relief through the purchase of short-time Government securities.

"'In suggesting this program for the future months, the Board is not unmindful that a limited number of member banks may expand undesirable loans upon Federal reserve credit to a point which would not be justified by conditions and circumstances surrounding these institutions, and in such cases the Board would expect the Federal reserve banks to resort to the usual direct action.

"'Again, if such increase in rediscounts and Federal reserve portfolios leads to an undue increase in loans having the earmarks of unsound

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banking practice in any great number of member banks where direct action can not be applied simultaneously and quickly enough to protect the general credit situation, the Board would be glad to consider other corrective measures.'

"It probably will be desirable to call a conference in Washington in the near future and, if so, the Board earnestly hopes that your board of directors will be represented either by the Governor of your bank or an alternate.

"By direction of the Federal Reserve Board."

Letter from New York Bank to Board, June 26. Under date of June 26, the Deputy Governor of the Federal Reserve Bank of New York addressed the following letter to the Board:

"Government security holdings in the Open Market Investment Account have shown a reduction of $5,000,000 since June 19, representing that amount of Fourth Liberty Loan bonds held temporarily for the Federal Reserve Bank of St. Louis and taken back by them on June 20. This transaction brings the total outright holdings in the Account down to $17,500,000, consisting entirely of 3-1/2% Treasury notes due December 15, 1930-32. . . ."

Letter from New York Bank to Board, July 3. Under date of July 3, Deputy Governor Case addressed the Board as follows:

"There have been no changes in the Government security holdings in the Open Market Investment Account since my letter of June 26, 1929, the amount remaining at $17,500,000 and consisting entirely of 3-1/2% Treasury notes due December 15, 1930-32. However, the individual holdings of one of the banks were reduced, due to a sale to the Treasury by the Federal Reserve Bank of St. Louis, of $3,000,000 March 15, 1930-32 - 3-1/2% Treasury notes for account of Sinking Fund. . . ."

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Letter from New York Bank to Board, July 10. The Board received the following letter from Deputy Governor Case, under date of July 10.

"Holdings in the Open Market Investment Account remain unchanged at $17,500,000, consisting of 3-1/2% Treasury notes due December 15, 1930-32, since my letter of July 3, 1929. Moreover, the individual holdings of this bank and the other Federal reserve banks also remain unchanged. . . ."

Effective July 12 the Federal Reserve Bank of New York reduced its open market buying rates to the following:

Bankers Acceptances:	
1 to 120 days	5-1/4%
121 to 180 days	5-1/2%
Repurchase	5-1/4%
Trade Acceptances	5-1/2%

Letter from New York Bank to Board, July 17. On July 17, the following letter was addressed to the Board by the Deputy Governor of the New York Bank:

"There has been no change in the holdings of Government securities in the Open Market Investment Account since my letter of July 10, the balance remaining unchanged at $17,500,000, consisting of 3-1/2% Treasury notes due December 15, 1930-32. The only change in the holdings in the investment account of this bank is a small lot of $780,000 of short-term certificates which we are holding temporarily, for resale to the Treasury. . . ."

Letter from New York Bank to Board, July 24. On July 24, Deputy Governor Case wrote the Board as follows:

"The System Account shows no change since my letter of July 17, 1929. The amount of Government securities held in the account and consisting of 3-1/2% Treasury notes due December 15, 1930-32, remains at $17,500,000. . . ."

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Letter from New York Bank to Board, July 31. Under date of July 31 the following letter was received from the Deputy Governor of the New York Bank:

"Since my letter to you dated July 24, 1929, there have been no changes in the System Account holdings or in Government securities held in our own investment account, the former remaining at $17,500,000 - 3-1/2% Treasury notes due December 15, 1930-32, and the latter at $480,000 consisting of short-term certificates. . . ."

Discussions of discount rate policy, August 2-6. Governor Harrison of the Federal Reserve Bank of New York was present at the meeting of the Board on August 2. He discussed with the members of the Board in detail the present credit situation in this country, as well as conditions abroad and emphasized the effect of possible adverse foreign developments in this country. Three courses, he stated, seem to be open to the Federal Reserve System - (1) to adopt a policy of pressure reflected through sharp and repeated rate advances; (2) to do nothing but maintain the present position, or (3) to adopt a policy of relaxation which would let Federal Reserve credit out into the market as needed during the fall, if possible to do so safely.

He expressed the opinion that the time has passed for the adoption of a policy of higher rates as a part of a program of pressure or deflation looking toward future easier money, and that the question now seems to be whether the System can release funds necessary to finance fall requirements and have a tendency toward a reduction of market rates, without stimulating a new demand for speculative credit or over stimulating business development, which now appears to be on a sound basis, but which might easily become overexpanded should our foreign markets be curtailed by a continuance of

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present rates here and abroad.

He suggested an increase in the discount rate to 6 per cent as a warning against the excessive use of credit, with a simultaneous reduction in bill rates to attract acceptances and, possibly, purchases of securities in the event the bill holdings of the System should not increase or increase too slowly.

On August 6, at a meeting of the Board attended by Governor Harrison and Governor Talley, reference was made to the discussion at the meeting of the Board on August 2, and Governor Harrison reiterated briefly his statements regarding the credit situation and possible future credit policy. He stated he was unable to give the Board any expression of the opinion of his board of directors, but two of those directors considered the plan suggested by him at the meeting of the Board on August 2 the best so far suggested for meeting the fall requirements, but the third made inquiries as to the apparent inconsistency of an increase in rate with a simultaneous policy of ease through purchases of bills or Governments.

Governor Talley expressed doubt that a special commodity rate would be much availed of, even without a restriction as to the rate charged customers on notes securing the preferential rate at the Federal Reserve Bank. He stated that commodities generally do not rest long enough, except at terminal points, to be used as collateral, so that the commodity rate would become practically a special export rate available at terminal points which already get preferential rates on this class of business.

A general discussion as to System policy during the coming months then ensued. Various opinions were expressed but no consensus was arrived at.

Letter from New York Bank to Board, August 7. Under date of

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August 7, Deputy Governor Kenzel wrote as follows:

"In Mr. Case's absence I am writing to inform you of the happenings in the Open Market Investment Account since his last letter to you, dated July 31, 1929.

"While the regular holdings of Government securities remain unchanged, the Account will show a temporary increase due to the taking over from the Federal Reserve Bank of St. Louis of all of the short and long-term Government securities, amounting to $13,625,000, held by them in their portfolio. The St. Louis bank, due to increased rediscounting on the part of member banks and their low reserve position which has resulted from such rediscounting, desired to be relieved of these securities temporarily. They were, therefore, taken over and distributed among other Federal reserve banks who desired to participate, such distribution being made at the current market prices with the understanding that they will be repurchased at the same prices, unless disposed of in the meantime. . . ."

Meeting of Board with Reserve Bank Governors and Increase in New York Bank Discount Rate.

Views of Board. On August 7, the Board met in joint conference with the Governors of all Federal Reserve banks and at a meeting of the Board on August 8, the discussion which took place at the joint meeting was reviewed. The question of an increase in the rediscount rate of the Federal Reserve Bank of New York as part of a plan to safely meet fall credit requirements was the subject of further discussion, at the conclusion of which an informal canvass indicated that a majority of the members present would give favorable consideration to action of the directors of the Federal Reserve Bank of New York establishing a discount rate of 6 per cent, if coupled with a policy of acquiring bills to the extent necessary to meet

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fall credit requirements."

Report of Governors. The Board again went into session with the Governors of the Federal Reserve banks and received the following report which had been adopted by them:

"It is the judgment of the Governors that the demand for increased credit incident to the autumn requirements of crop moving and business should be met, so far as possible, by an increase of the bill portfolio of such banks as care to participate in bill purchases.

"The Governors are also of the opinion that this procedure can best and most safely be undertaken, and with least risk of abuse in the use of Federal reserve credit, under the protection of an effective discount rate in the New York district.

"They are further led to this conclusion by the expressed belief that an increase in the discount rate of the Federal Reserve Bank of New York would necessitate increases in few, if any, of the other Federal reserve banks during the period of seasonal business demand; and the desire of the directors and officers of all other reserve banks to avoid increases, if possible. It is, therefore, recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate."

Changes in New York Bank discount and buying rates. Following this joint meeting, advice was received from the Federal Reserve Bank of New York that the directors of that bank had voted to establish a rediscount rate of 6 per cent, subject to the approval of the Board, and to reduce from 5-1/4 per cent to 5-1/8 per cent the minimum buying rate on acceptances. The rate of 6 per cent established by the New York directors was approved after the Board had voted to adopt the report received from the

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Governors as a basis of Federal Reserve policy during ensuing months.

On August 8 a statement was issued to the press as follows: "The Federal Reserve Board and Governors of Federal reserve banks have been in conference during the past two days and have considered how resources of the Federal Reserve System might best be conserved and made available to meet autumn requirements. The problem has presented difficulties because of certain peculiar conditions. A mutually satisfactory plan has been developed."

The following day the Board noted with approval the open market rates established by the New York Bank:

Bankers Acceptances:

1 to 120 days	5-1/8%
121 to 180 days	5-1/2%
Repurchase	5-1/8%
Trade Acceptances	6%

Letter from New York Bank to Board, August 14. On August 14 Deputy Governor Kenzel wrote the Board as follows:

"There has been no change in the holdings of Government securities in the Open Market Investment Account since I wrote you last on August 7,1929, the total remaining at $31,125,000, inclusive of the $13,625,000 taken over temporarily from the Federal Reserve Bank of St. Louis.

"Due to the condition of the Government security market, we are still carrying a fairly large amount for dealers under sales contract, the total at the close of business today being $26,985,000 against $29,810,000 on August 7, 1929.

"Coincident with the change in our rediscount rate, the prices of both long and short-term Government securities took a sharp drop. There has, however, been a good recovery within the past few days and while

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Liberty and Treasury bond prices are still somewhat lower than a week ago, the short-term issues are strengthening daily and at this writing are at practically the same levels as they were last week. This is due chiefly to easier money, although there has been some demand for the shorter issues, principally the 3-1/2% Treasury notes of 1930-32. It looks as if the greater part of this represents accumulation for payment of foreign debt.

"The bill market this week has received slightly larger amounts of new bills than a week ago, which is seasonal, represented chiefly by grain bills which are appearing in moderate volume against grain in storage, as well as some wheat export bills.

"The figures in the dealers portfolios tonight will show a rather substantial increase, which is more apparent than real, the explanation being that we have sold to the market for account of a foreign correspondent $16,000,000 of short bills which, by arrangement with the dealers, we will carry under sales contract for the most part until the maturity of the bills. We were able to sell these at 5 and 5-1/16%, giving our correspondent a little better rate than our 5-1/8%, which, however, we got through carrying the bills under sales contract. We also bought on Monday from another foreign correspondent about $5,000,000 of bills which will all have matured by next Monday.

"We will also be carrying tonight about $14,000,000 of bills bought from the market in excess of our actual requirements to replace maturities for foreign accounts, so making provision in anticipation of the very large maturities which we shall have to replace for them within the next few days. These transactions, which are temporarily in our bill account, together with about $8,000,000 of bills which we bought for System account but which are coming in today and will be in our portfolio over

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tonight, less some reductions on sales contracts here, will, we estimate, make the System's published figures show an increase in bills purchased over last week of between $30,000,000 and $35,000,000, approximately $18,000,000 of which was involuntary, being the balance of bills sold by our foreign correspondents which we are carrying in one way or another.

"This is as much as I have cared to increase the System account this week and I have done it in a way which will permit a considerable normal reduction within the next few days through the application of the bills held in suspense to foreign requirements instead of making new purchases and in the run-off of bills held under sales contract that were sold by our foreign correspondents, if it should seem that we have been liberating funds a little too quickly. But at the present writing it looks to me as if our easing in rediscounts has resulted much more from heavy transfers of funds to New York which, I understand, were occasioned to a considerable extent by stock market margin requirements at the end of last week."

Motion of Board on establishment of buying rates, August 15. At a meeting of the Board on August 15, Governor Harrison and Deputy Governor Kenzel were present and Governor Harrison discussed with the Board the question of possible purchases of sterling exchange. The question of establishment of bill rates was also discussed and a motion was adopted as follows:

"That in the absence of a quorum of the Board the Executive Committee, or in its absence, the Executive Officer of the Board be authorized to approve effective buying rates within the limits of a five per cent minimum and the five and one-half per cent maximum, excepting the Federal Reserve Banks of Dallas and Atlanta were four and seven-eighths per cent and four and one-half per cent rates are now in effect on short maturities and

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the Federal Reserve Bank of Richmond, where a rate of five and five-eighths per cent has been established on long maturities, such rates applying to bills originating in the respective districts."

Communications on Open Market Operations and Related Matters, Mid-August - Mid-September 1929.

Letter from Harrison to Board on operations in bankers' acceptances, August 16. Under date of August 16, Governor Harrison forwarded to the Board a copy of the following letter addressed to the Governors of all other Federal Reserve banks:

"With the published statement of the System out today, reflecting the changes after the first week's operations under the increased rediscount rate at this bank, I thought you might be interested in some explanation of our market operations during the week.

"It was our thought that during the week our open market purchases of bills should be about $25,000,000, and that we should observe what effect that would have upon our rediscounts. In our operations we actually went somewhat beyond the $25,000,000 to about $35,000,000 increase in the bill portfolio, largely because of the fact that we were called upon by two of our foreign correspondent banks to dispose of about $21,000,000 of short bills. This had the effect of increasing our sales contracts almost by that amount. These transactions account for this week's reduction of Contingent Liability in the published statement. Several millions of the bills sold for foreign account have already run off and most of the balance will mature during the next two weeks. The balance of the increase was made through purchases anticipating for a few days the requirements of our foreign correspondents for reinvestment of their maturities, which are very heavy during this month.

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"It was by reason of these transactions that the increase in bill portfolio for the System was confined largely to this bank and the reduction in our discounted bills was doubtless larger on that account than it would otherwise have been. It is interesting that the combined figures of the System show that the reduction of total bills discounted, i.e., $36,000,000 was nearly equaled by the net increase in bills and Governments of $35,000,000. The reduction in discounts at this bank of about $99,000,000 exceeds the net reduction in the System's discounts by some $63,000,000. It would be interesting to learn whether the shift in the location of rediscounts represents to any extent a shift of borrowings from New York to other districts on account of our higher rate or whether in part it may represent transfers of funds to New York to protect market margins, or whether it is merely an accentuated seasonal movement. Of course, transfers in this direction are not unusual for this time of month.

"It is our present purpose to proceed very cautiously in voluntarily increasing the bill portfolio, if indeed any further net increase may be made during this week, or until the seasonal increase in volume of bill credit becomes more important than is now apparent."

Letter from Harrison to Board on authorization for purchases of sterling, August 16. On the same date Governor Harrison also addressed the following letter to the Board:

"In further reference to our conversation of this afternoon and merely to repeat in brief some of the long discussion which I had with the Federal Reserve Board yesterday regarding our possible purchase of sterling, I want to confirm that our directors yesterday authorized the officers to purchase up to $25,000,000 of sterling and that, in my opinion, now is the appropriate time for us to do so. Sterling exchange is weak. $5,000,000 of

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gold is now on the way to New York from London and we have been advised by bankers around the street today that unless sterling strengthens they are likely to take more gold from the Bank of England on some of the fast steamers that are leaving next week, the first of which is on Tuesday. As I explained to you on the telephone, the Bank of England has today sold some dollars in their effort to bolster sterling and to avoid further unnecessary shipments of gold, but it is probable that unless they sell more dollars or we buy sterling, or both, early next week, still further shipments of gold to this country will be undertaken. This we believe undesirable for various reasons which we discussed at the meeting yesterday. If by the purchase of sterling bills we can help to minimize or avoid these shipments, without at the same time going contrary to the policy which the System has adopted for our own market, there seems to be not only great advantage but no disadvantage in our purchases of sterling, especially to the extent that sterling is converted into bills and reflected in our statement in the open market purchases of bills.

"As I mentioned on the telephone, much of the increase in our bill portfolio during the past week was in repurchase agreements or in short maturity bills, some of which will no doubt be withdrawn or liquidated during the course of the week. This position of the bill portfolio gives us greater leeway in the purchase of sterling than might otherwise be the case. In any event the facility of purchasing sterling seems to be not only an additional instrument in the execution of our own domestic program but also an affirmative aid in supporting sterling exchange which, unless strengthened, now threatens large gold imports into New York.

"As I mentioned on the telephone, I am leaving very shortly to go out of town over the weekend and I am dictating this letter hurriedly without

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adequate opportunity for consideration or review. I hope you will please accept it in that light and understand that I am sending it thus hurriedly only because you asked me to dispatch it this afternoon before I leave."

This matter was considered at the meeting of the Board on August 22, with the result that the Board expressed itself as seeing no objection to the action of the New York directors in authorizing the officers to purchase sterling exchange up to $25,000,000.

Letter from New York Bank to Board, August 21. On August 21 the Deputy Governor of the New York Bank wrote the Board as follows:

"The holdings of Government securities in the Open Market Investment Account are $5,000,000 higher than they were when I wrote you last on August 14, 1929, the total being $36,125,000 par value, including $13,625,000 taken over temporarily from the Federal Reserve Bank of St. Louis last week and $5,000,000 from Dallas today under similar terms. . . ."

Letter from New York Bank to Board, August 28. Under date of August 28, Deputy Governor Kenzel wrote as follows:

"Since my last letter, dated August 21, 1929, there have been no changes in the holdings of Government securities in the Open Market Investment Account, the total remaining at $36,125,000 par value, including the two lots taken over temporarily from the Federal Reserve Banks of St. Louis and Dallas. . . ."

Letter from New York Bank to Board on sterling purchases, August 28. At the meeting of the Board on September 3, the Governor presented the following letter, dated August 28, from the Chairman of the New York Bank:

"Governor Harrison has discussed with you the question of our purchasing sterling and in his absence I am writing to advise you what we have done to date in that connection. Last week we purchased £1,500,000

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which has been invested in sterling bills and yesterday we bought £705,000 which we expect will be placed in bills today. Whether we shall amke any further purchases this week will depend on developments in the foreign exchange market. Sterling was stronger this morning probably because of the reported agreement at the Hague.

"I think we may say that our purchases of sterling together with the sales of dollars which have been made by the Bank of England have helped to prevent gold imports. You have probably observed that no gold left London for New York last week and the only movement so far reported this week is a small consignment of £100,000 which will leave on the S/S Ile de France tomorrow morning. Of this amount £30,000 is South African gold bought in the London market and the balance, £70,000, will be taken from the Bank of England today."

The Governor also reported that in addition to the sterling purchased by the Federal Reserve Bank of New York, the Bank of England had liquidated approximately $11,000,000 of its dollar holdings, so that over the last ten days it had taken approximately $21,000,000 in purchases of sterling and sales of dollars to prevent gold imports.

Letter from New York Bank to Board, September 4. On September 4, the Deputy Governor of the New York bank wrote as follows:

"Upon returning from my vacation I find that Mr. Kensel wrote you on August 28, 1929. Since that time there has been no change in the holdings of Government securities in the Open Market Investment Account, the total (inclusive of the two lots taken over temporarily from the Federal Reserve Bank of St. Louis and the Federal Reserve Bank of Dallas) remaining at $36,125,000. . . ."

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Letter from New York Bank to Board, September 11. On September 11 the following letter was addressed to the Board by the Deputy Governor Case:

"No change has taken place in the holdings of Government securities in the Open Market Investment Account since September 4, 1929, the date of my last report to you on this subject. The total in the account remains at $36,125,000, including the two lots taken over temporarily from the Federal Reserve Bank of St. Louis and the Federal Reserve Bank of Dallas. . . ."

Resolution of Federal Advisory Council on discount rate increase. The Federal Advisory Council met with the Board on September 17 and later presented the following resolution adopted by it:

"The Advisory Council, after consideration of Governor Young's explanation of the open market policy adopted following the fixing of the New York Reserve Bank rate at 6%, believes that the increasing of the New York Bank rate to 6% and the reduction in the buying rate for bills in the open market have worked satisfactorily thus far and have the approval of the Council.

"The Council concurs in the thought that the Federal reserve banks should buy acceptances to such an amount as may be necessary to avoid any greater burden on commercial business and suggests that these purchases should be made only as the need develops."

Letter from New York Bank to Board, September 18. Under date of September 18, the Deputy Governor of the New York bank wrote the Board as follows:

"There has been no change in the total holdings of Government securities in the Open Market Investment Account since I wrote you on this subject under date of September 11, 1929. The total remains at $36,125,000, including the $13,625,000 held temporarily for the Federal Reserve Bank

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of St. Louis and the Federal Reserve Bank of Dallas. . . ."

At the close of business on September 18, bills and securities held by the System amounted to $1,368,000,000, consisting of $934,000,000 in discounts, $241,000,000 in acceptances, and $178,000,000 in Government securities, $36,000,000 of which were held in the Open Market Investment account.

Meeting of September 24, 1929.

At the meeting on September 19, the Governor advised of a telephone conversation with the Governor of the Federal Reserve Bank of New York regarding the advisability of holding a meeting of the Open Market Investment Committee for the purpose of considering the purchase of a limited amount of Government securities. Tuesday, September 24, was fixed as the date of the meeting.

Preliminary memorandum of Chairman. The Committee met in Washington on September 24 and considered the following preliminary memorandum presented by the chairman:

"At a meeting of the Governors of all Federal reserve banks at Washington, D. C., on August 7 and 8, the following resolution was adopted:

"'It is the judgment of the Governors that the demand for increased credit incident to the autumn requirements of crop moving and business should be met, so far as possible, by an increase of the bill portfolio of such banks as care to participate in bill purchases.

"'The Governors are also of the opinion that this procedure can best and most safely be undertaken, and with least risk of abuse in the use of Federal Reserve credit, under the protection of an effective discount rate in the New York district.

"'They are further led to this conclusion by the expressed belief

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that an increase in the discount rate of the Federal Reserve Bank of New York would necessitate increases in few, if any, of the other Federal reserve banks during the period of seasonal business demand; and the desire of the directors and officers of all other reserve banks to avoid increases, if possible. It is, therefore, recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate.'

"This resolution was approved by the Federal Reserve Board and on August 8 the Federal Reserve Bank of New York raised its discount rate from five to six per cent and reduced its buying rate for bills from 5-1/4 to 5-1/8 per cent.

"In the six weeks which have elapsed since the adoption of the program, seasonal demands for Federal reserve credit have been entirely met by increases in holdings of bankers' acceptances by the Federal reserve banks. In fact, from the statement of August 7 to that of September 18, the total amount of Federal reserve credit outstanding has increased $57,000,000, the amount of bankers' acceptances held has increased $162,000,000, discounts of member banks have decreased $130,000,000, and holdings of Government securities have increased $20,000,000, due to an increase in holdings of securities under sales contract. The statement for September 18 shows total bills discounted of $934,000,000, equivalent to 68.5% of total bills and securities, compared with $1,064,000,000 on August 7, equal to 81% of total bills and securities.

"The accompanying diagram shows that the increase in the total of federal reserve credit since the last week of July, when the seasonal expansion normally begins, has been in accordance with the normally to be expected increase on the basis of previous experience.

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"A second diagram shows the changes in System holdings of bankers' acceptances for the past three years, and shows that during August System holdings increased more rapidly than last year, but since then have about kept pace with the figures for the past two years. During current week, however, there appears to have been a noticeable decline in the rate of increase in bill holdings.

"It is still early to pass judgment fully on the effects of the policies adopted. The immediate psychological effect of the rate change passed quickly. Since then there has been some evidence that the economic consequences of these policies may be of considerably greater importance.

"Effects on Money Rates. The following table compares open market money rates on September 23 with corresponding rates in the first week of August and indicates that except for a slightly firmer tendency in commercial paper and in time money there has been no appreciable change in interest rates.

Money Rates at New York

	First Week August 1929	Sept. 20, 1929
Stock Exchange call loans	8 - 12	8
Stock Exchange 90-day loans	8-3/4-9	9
Prime commercial paper	6	6-1/4
Bills - 90-day unindorsed	5-1/8	5-1/8
Customers' rates on commercial loans	*6.00	6.07
Treasury certificates and notes		
Maturing December 15	4.79	4.54
Maturing March 15	4.56	4.51
Fed. Res. Bk. of New York rediscount rate	5	6
Fed. Res. Bk. of New York buying rate for 90-day bills	5-1/4	5-1/8

*Average rate of leading banks at middle of August; July rate 5.80

"An analysis of the rates actually charged by commercial banks to their commercial customers in the second district indicates practically no change in the rates charged by banks outside of New York City which are

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generally uniform at 6 per cent. In the cities 6% is the commonest rate. A slight movement upward is shown in the fact that fewer loans are made at 5-1/2 and 5-3/4 per cent, and possibly a few more are made at rates above 6 per cent. Thus the average of rates is fractionally higher on that account, continuing an upward tendency which has been reflected in an increase month by month from 5.50 per cent in February to 6.07 in September, as indicated by reports of ten New York City banks.

"Effect in Member Bank Position. Since the rate increase there has been little net change in the total loans and investments of reporting member banks, in spite of an increase of $230,000,000 in commercial loans. This increase has been about offset by a decline of $140,000,000 in collateral loans and $110,000,000 in investments. Brokers' loans have continued to expand and are now $549,000,000 higher than they were early in August when the discount rate was increased. But this increase has been largely in loans for account of others and in face of a decline in the total loans on collateral by reporting member banks.

"In a number of ways the statistics appear to reveal an attitude on the part of member banks generally. The following points are interesting.

"1. Bank loans on collateral have declined during a period when brokers' loans were rising steadily.

"2. Funds made available to member banks by Federal reserve acceptance purchases in excess of seasonal needs were used entirely to reduce indebtedness at the Reserve banks. There was no increase in bank credit.

"3. Decreases in rediscounts have not yet been reflected in any easing in money rates, although, as illustrated by the attached chart, we might expect that a continued reduction in total volume of discounts

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will ultimately tend to decrease interest rates.

"All these appear to show an unwillingness of the banks to continue in debt and a vigorous and general attempt to liquidate this debt.

"Effect on Movement of Funds. Following the increase of discount rate at New York a considerable flow of funds from other districts was a possible danger which might have forced other Reserve banks to protect their reserves. In the week immediately following the rate change there was some movement to New York, but this was of short duration and was followed by a loss of funds following much the usual seasonal course.

"This result is probably ascribable to the fact that the discount rate was already so far below market rates that the increase had little effect on market rates.

"On the other hand funds made available by the purchase of acceptances have largely gone to liquidate discounts at the New York Reserve Bank and discounts at other Reserve banks have followed much the usual seasonal course. The rate change has apparently had little effect on the movement of funds between the United States and Europe. Confidential reports to the New York bank indicate a slight increase in foreign balances between the end of July and the end of August, but this increase cannot be attributed to higher rates in this market, for it took altogether the form of an increase in holdings of bankers' acceptances and Treasury certificates the yields on which have not increased. There was, moreover, a decrease of $24,000,000 in the amount of foreign funds employed on time or call in this market, the first decrease that has occurred in this account for some time. It is perhaps significant that it accompanied a level of call money rates slightly lower than had prevailed for some months previous.

"The European Situation. The flow of gold from Europe has

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continued at about the same rate as before the policies of August 8 were adopted. Since that time the Bank of England has lost an additional $22,000,000 (mostly to France and Germany) of gold and its reserves have been reduced from £141,400,000 to £136,900,000. While there have been no marked changes in European money rates, the indications are that the pressure upon Europe due to high money rates, is becoming constantly more intense and is tending to retard industrial and business development. August figures show an unseasonal decline in United States exports, though a single month's figures are not sufficient to indicate a trend. There is evidence of a backing up of wheat in shipping centers which is probably attributable in part at least to a restraint on the part of foreign buyers.

"The Domestic Business Situation. Business is still operating at a high level, above any of the computed 'normal' lines based on previous years experience and allowing for growth. In recent weeks, however, there has been a declining tendency in a number of basic industries. Building activity has been reduced still further; automobile production has been receding, and steel production has reflected these tendencies. These recessions have not, however, progressed far enough to warrant definite conclusions as to the trend.

"Agricultural Conditions. The size of the year's crops is expected to be generally smaller than a year ago. With higher prices the total return to the farmer may be not short of a year ago, but certain sections of the country have suffered severely through the drought. The continued pressure on the credit situation has also been reflected by increasing reports from some localities of difficultios of agriculture in securing an adequate supply of credit."

At a joint meeting of the Committee with the Federal Reserve Board

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on the afternoon of the 24th, the following report was submitted by the Committee:

"The Committee has reviewed a preliminary memorandum and current credit conditions.

"During the past eighteen months interest rates in this country have gradually risen and money, especially for new undertakings, has become more difficult to obtain. While business continues at a high level, there are some indications of a possible impending recession.

"Rates in many foreign centers have risen even more markedly and the loss of reserves of central banks threatens further increases in rates and probable curtailment of Europe's capacity to buy this country's products.

"In accordance with the System policy adopted on August 8th seasonal requirements for Federal reserve credit have been met by bill purchases, and in fact such purchases have been sufficient to reduce rediscounts to some extent.

"For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit, the Committee favors a further increase of the open market holdings of the Federal reserve banks. It favors an increase of these holdings by the continued purchase of bills if they can be obtained in sufficient amounts to accomplish this purpose. If bills cannot be obtained in sufficient amounts without interfering with the present desirable distribution, it favors the purchase of Government certificates of the short maturities.

"The Committee therefore recommends that it be authorized to purchase not to exceed $25,000,000 a week of such certificates for account

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of such banks as care to participate, with the understanding that such purchases be made only under the conditions above stated, and with the further understanding that there be careful current review of the consequences of such purchases, in order that there may be another meeting with the Board at any time that that may seem advisable either to the Board or to the Committee. In any event, the Committee feels that there should be another such meeting not later than November 1st."

In presenting the report the Chairman stated that the Committee prefers to carry out the program previously agreed upon through the purchase of acceptances, but pointed out that whereas three weeks ago the bill portfolio of the System increased $40,000,000, last week it increased only $20,000,000 and so far this week only $6,000,000. The Committee, he stated, feels that rather than force member banks to get necessary credit during the fall through rediscounts and undo what has already been accomplished in the reduction of rediscounts, the System should buy bills, if they can be gotten rapidly enough, and should be prepared, in the event bills can not be secured, to purchase short term governments.

"The members of the Open Market Investment Committee then withdrew from the meeting and, after some further discussion, at the suggestion of the Governor it was voted to take the report of the Committee under review pending the return of some of the absent members of the Board."

Current letter from New York Bank to Board. Deputy Governor Case wrote the Board under date of September 25 as follows:

"Since I wrote you, under date of September 18, there have been several transactions in the Open Market Investment Account. These transactions consisted of sales to the Treasury, for account of the Sinking Fund, of $10,795,000 aggregate amount of Government securities, which were

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replaced in the account by purchase in the market of $10,795,000 Treasury certificates maturing in December of this year and in June, 1930; also, the Federal Reserve Bank of Dallas repurchased the $5,000,000 of Fourth Liberty Loan bonds which had been held temporarily in the System Account. None of these transactions, however, will reflect any change in the holdings of Government securities by the system for the week. . . ."

Letter from Harrison to Board on Committee action. The following letter was received from Governor Harrison under date of September 30:

"While I was not present last Thursday at the meeting of our directors, I understand that the report of the Open Market Investment Committee, now pending before the Federal Reserve Board, was considered and approved by the directors who authorized the officers to participate in any purchases made in accordance with the terms of the report, subject to its approval by the Federal Reserve Board.

"At the meeting of our executive committee this afternoon, when it was reported that the Board had not yet acted upon the report, the directors reviewed further the considerations which to them make it seem important that the Open Market Committee be given the authority recommended in the report in order that the committee may be prepared as and when it may seem advisable to supplement the purchase of bills by the purchase of government securities.

"The directors realize, of course, that limited purchases of government securities at this time will not of themeselves result in any immediate reversal in the general trend of interest rates. They believe that if we buy government securities in this market the proceeds would in all probability be applied first to the reduction of discounts at the Federal Reserve Bank of New York, just as proceeds of the purchases of bills have

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made it possible for our member banks to reduce their borrowings, and that as long as we have an effective discount rate the proceeds of such purchases would not be made the basis of an expansion of unnecessary credit. The experience of the past six or eight weeks, in which all collateral loans as well as loans to brokers have been reduced by our member banks, demonstrates that they are seeking to reduce their discounts rather than to use any new Federal reserve credit as the basis of a further expansion of speculative credit. If this process is continued, as we think it probably would be, by our open market operations in bills or government securities, and if as a result rates tended to decline in this market, funds would probably then be withdrawn from New York by banks and others, rates would tend to stiffen again and our member banks would find it necessary to step in to relieve the pressure and again to increase their borrowings from us. Further open market operations would then be necessary, if it seemed advisable at the time, to repeat the process, thus indicating that only by this sort of slow see-saw procedure is it likely that we shall eventually approach a condition of easier rates.

"With all this in mind and realizing that at best it will be a slow process, our directors are of the opinion that the Open Market Investment Committee should now be given authority, in order that it might be prepared as soon as circumstances referred to in its report warrant, to supplement the purchase of bills with purchases of government securities. This they think is advisable in order that we may, as speedily as may be consistent with safety, facilitate the reduction in the total volume of discounts throughout the Federal Reserve System which they believe to be a necessary forerunner of an ultimate ease in the present credit situation.

"In this connection it was pointed out that there is now evidence

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that, while larger corporations seem to be in a position to obtain funds which they need by new capital issues, it is becoming increasingly difficult for smaller business men and farmers to obtain necessary credit. They also referred to the fact that it now appears that high rates of interest are having a serious effect upon new building projects, have substantially closed our bond markets to European borrowers, and have contributed largely to the need for continued and repeated increases in discount rates abroad. All of this they feel will ultimately react against foreign purchasing power for our goods with the possibility of serious ill effects upon American business and agriculture.

"In conclusion, they believe that both the domestic and international situation make it seem advisable for the System to continue open market operations in bills, and, if necessary, in governments, at a rate which will permit of a continued reduction in member bank discounts, and thus gradually to pave the way for an ultimate ease in interest rates which is now becoming more and more important to the world at large."

Letter from Board approving Committee program. At the meeting of the Board on October 1 the following letter to the Chairman of the Open Market Investment Committee, approving the program recommended by the Committee in its report to the Board on September 24, was approved:

"The Federal Reserve Board has reviewed the report and recommendation of the Open Market Investment Committee as of September 24, 1929.

"The Board approves of your program to continue the purchasing of bills, and if necessary supplement the program by purchasing short-term Government securities for those reserve banks that desire to participate for the purposes mentioned in your recommendation, (to wit: - 'For the

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purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit.' The Board, to this end, grants the authorization requested to purchase short-time Government securities at not to exceed $25,000,000 a week.)

"In authorizing such purchases, the Board is approving mainly for seasonal reasons and such approval should not be interpreted as a reversal of former policies.

"The Board welcomes and adopts the suggestion contained in the recommendation of the Committee that there be careful current review of the consequences of such purchases, and you will be advised promptly by the Board if at any time it believes that purchases should be discontinued or the procedure changed.

"It is also agreeable to the Board that the Committee meet with it again at some date, later to be determined, but not later than November 1."

Communications on Open Market Operations and Discount and Buying Rates, October - Early November 1929

Letter from New York Bank to Board, October 2. Under date of October 2, Mr. Case advised the Board as follows:

"There have been no transactions in the Open Market Investment Account since I wrote to you under date of September 25, 1929. The total amount of holdings in the account remains at $31,125,000, including the $8,625,000 which is being held temporarily for the Federal Reserve Bank of St. Louis. . . ."

Letter from New York Bank to Board, October 9. The following letter was received from the Deputy Governor of the New York bank under

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date of October 9:

"The only transaction in the Open Market Investment Account since I wrote you under date of October 2, has been the sale, today, to the Federal Reserve Bank of St. Louis of the $8,625,000 par value of Government securities which have been held temporarily in the System Account since August 6 last. This sale reduces the total holdings of the Open Market Account to $22,500,000. However, this transaction will not reflect any decrease in the System's holdings of Governments for the week. . . ."

Letter from New York Bank to Board, October 16. On October 16, Mr. Case wrote as follows:

"The holdings in the Open Market Investment Account, namely, $22,500,000 par value of Government securities, are the same as when I wrote you on October 9, 1929. This bank's holdings of Government securities, representing securities held for dealers under sales contracts, show a decrease of $3,820,000 over last week's figures, the total at the close of business today being $9,380,000. . . ."

Letter from New York Bank to Board, October 23. The following letter was received from Mr. Case under date of October 23, 1929:

"Since my letter of October 16, 1929, there have been no changes in the holdings of Government securities in the Open Market Investment Account, totaling $22,500,000. Our holdings of Governments under sales contract, however, have shown a further reduction, the amount being $6,830,000 at the close of business tonight as compared with $9,380,000 of Governments at the close of business October 16. . . ."

Consideration of New York Bank discount and buying rates, October 24-28. At the meeting of the Board on October 24, Governor Young reported advice received from the New York bank to the effect that dealers'

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rates on acceptances had been reduced one-eighth per cent and consideration was being given by the Federal Reserve Bank of New York to a reduction in its buying rate. He stated that some of the directors of the New York bank were in favor of a reduction in the discount rate of the bank. Some consideration would also be given at their meeting to the purchase of a limited amount of Government securities since the holdings of the System were expected to show a reduction for the week due to a decrease in repurchase agreements.

At the reconvened meeting on the afternoon of the 24th, the Board desapproved the action of the New York directors in voting to establish a rediscount rate of 5-1/2 per cent and determined the rate of the bank to be six per cent.

At the same meeting the following schedule of buying rates on acceptances, at the New York bank, effective October 24, was approved by the Board:

Bankers acceptances:		
1 to 90 days	-	5%
91 to 120 days	-	5-1/8%
121 to 180 days	-	5-1/2%
Repurchase	-	5%
Trade bills	-	5%

On October 28, Governor Young reported a telephone conversation with Deputy Governor Kenzel of the Federal Reserve Bank of New York, who advised him that with a buying rate of 5 per cent in effect the Federal Reserve bank is not getting any bills, the rate on which in the market this morning is 4-5/8 per cent. He stated that there has been a large reduction in brokers loans and that corporations and bankers in the interior are calling such loans and investing in bills, Governments and commercial paper. As a result, he stated, New York City banks have increased their borrowings

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at the Federal Reserve bank to $155,000,000 and it is possible their loans may run up to $250,000,000 or $300,000,000 in the next few days. The Executive Committee at the New York bank meets today and, he stated, will probably give some consideration to the advisability of purchasing Government securities. It is also possible, he stated, that the New York bank may further reduce its effective buying rate on bills.

Members of the Board expressed the opinion that no further reduction in the bill rate should be made at this time as the easing program of the System seems to be progressing satisfactorily.

(Secretary's Note: At this time conditions in the money market were threatened by reason of drastic liquidation in the securities markets.)

Consideration of New York Bank security purchases for its own account. At the meeting on October 29, the Governor reported a telephone conversation on the 28th with Governor Harrison, who informed him that he had been given authority by his board of directors to purchase in the open market, at his discretion, for account of that bank, United States Government securities, without any stated limit. The Governor stated that he advised Governor Harrison that he would bring the matter before the Board this morning and that subsequent information received from Governor Harrison indicated that he was in position to make arrangements for the purchase of approximately $50,000,000 of securities under the authority granted by his directors, and that it was his opinion and that of some of his directors that the purchases should be made before the opening of the market and announcement of the call rate.

The report of the Governor was noted by the Board and after discussion it was the opinion of the Board that inasmuch as purchases of securities have already been made, there was nothing before the Board at

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the time requiring immediate action. It was therefore voted that questions arising out of the assumption of responsibility by the New York Federal Reserve Bank, in undertaking this operation on its own account without having first obtained the approval of the Open Market Investment Committee and the Federal Reserve Board, be left for future discussion.

However, the procedure which had been in effect in the matter of System open market operations since establishment of the Open Market Investment Committee in 1923 was reviewed and motions were introduced instructing the Board's counsel to draw up and submit to the Board a regulation covering open market operations, but no action was taken.

During the afternoon the Governor again talked over the telephone with Governor Harrison who advised him that the directors of his bank, who had been in special session to consider the advisability of a reduction in the discount rate, had adjourned without action. The Governor stated he had inquired whether it would be of any benefit if the New York directors had an expression from the Board and Governor Harrison stated he thought it would be most helpful. As an expression of the opinion of the Board as to the action which might be taken, the following statement was adopted:

"That the most helpful thing at the present time would be a reduction in the discount rate of the New York bank to 5%, coupled, however, with an understanding that the System will suspend, for the time being, any purchases of Government securities, pending future developments in the credit situation as a result of the rate reduction, and further consideration and approval by the Federal Reserve Board."

On October 30 and 31 the Board was in almost continuous session and received reports from the Governor of telephone conversations with the Federal Reserve Bank of New York. At the request of the Board, the Governor

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also communicated with the heads of several of the other Federal Reserve banks and reported their advices generally of no severe pressure upon their Federal Reserve banks.

Letter from New York Bank to Board, October 31. At the meeting of the Board on October 31 the following letter, dated October 30, from Deputy Governor Case was presented:

"At the close of business October 23, 1929, the date of my last letter to you, the holdings of Government securities in the Open Market Investment Account aggregated $22,500,000. Since then, purchases of short-term Government securities totaling $25,000,000 have been made, bringing the account, at the close of business tonight, up to $47,500,000. The additional purchases which have been made to relieve the situation in this market, and regarding which you have been kept informed, have reached a total of $108,152,000. There will be transferred tomorrow to the Open Market Investment Account and distributed among participating Federal reserve banks a further $25,000,000 of the securities purchased. . . ."

Reduction of New York Bank discount rate. During the afternoon of that day the Governor reported telephone advice from the Governor of the Federal Reserve Bank of New York that the directors of that bank had voted to establish a rediscount rate of 5 per cent and also to establish a minimum buying rate for purchases of acceptances of 4-1/2 per cent, with the understanding that if this minimum rate were approved by the Board, an effective buying rate of 4-3/4 per cent would be established. With regard to Government securities he advised the Board that the officers had reported to the directors of the New York bank that no purchases were made either on October 30 or 31, and that they could see no occasion for additional purchases at this time although it might become necessary to take on additional amounts

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later, depending upon developments.

The rediscount rate of 5 per cent, established by the New York directors, was approved by the Board effective November 1, but their action in voting to establish a minimum buying rate of 4-1/2 per cent was reviewed and the Board determined the minimum buying rate of the bank to be 4-3/4 per cent.

Preceding this action, there was discussion of the question of regulating further purchases of Government securities and after action had been taken, consideration of a proposed regulation on the subject of open market operations was made special order of business for November 5.

At the suggestion of the Governor, he was authorized to approve effective buying rates, not less than the minimum rate of 4-3/4 per cent approved by the Board, established at the Federal Reserve Bank of New York or at any other Federal Reserve bank. On November 2, the Board ratified his action in approving the following schedule established at the New York bank on November 1, 1929:

Bankers Acceptances:		
1 to 120 days	-	4-3/4%
121 to 180 days	-	5%
Repurchase	-	4-3/4%
Trade Acceptances	-	5%

Board consideration of regulation of open market operations, November 5. At the meeting on November 5, following a discussion of a regulation governing open market operations, the Board adopted the following resolution:

"Except with the approval of the Federal Reserve Board, no Federal Reserve Bank shall (a) buy any bonds, notes, certificates of indebtedness or Treasury bills of the United States, having a maturity in excess of fifteen days, or (b) sell any bonds, notes, certificates of indebtedness,

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or Treasury bills of the United States."

The effective date of this regulation was left for subsequent determination by the Board, and at the meeting on November 7 the Governor advised the Board that in consulting the Board's Counsel regarding the preparation of a letter to all Federal Reserve banks regarding the regulation, he was informed that there was considerable doubt of its legality in the form adopted. It was understood that the Governor would endeavor to work out another form along the lines discussed and submit it to the Board later.

Letter from New York Bank to Board, November 7. Under date of November 7, the following letter was addressed to the Board by the Deputy Governor of the New York bank:

"Since my last letter to you on this subject, under date of October 30, 1929, there have been some further changes in the holdings of Government securities, as follows:

"Additional purchases made to relieve the situation in this market and which, on October 30, amounted to $108,152,000, reached a total of $132,652,000 at the close of business November 6. Of this, $25,000,000 of securities were transferred on October 31 to the Open Market Investment Account for distribution among participating Federal reserve banks, as previously advised. A further $25,000,000 will be transferred to the System Account today for distribution.

"On the other hand, however, our sales contracts, which a week ago reached a total of $32,660,000, have shown a large reduction and stood at the close of business yesterday at $8,750,000.

"You have, no doubt, noted the sharp rise in prices of both short and long-term Government securities, especially the latter. The quotations

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at the begining of business today as compared with a week ago show an increase of from 1/32 to 10/32 on short-term certificates and notes, and from 18/32 to 1.11/32 on Liberty Loan and Treasury bonds. Government securities have been in active demand on the part of banks and other corporations in an endeavor to keep employed funds which were formerly used in the call loan market. . . ."

Resolution of New York Bank on open market operations, November 7. At a meeting of the board of directors of the New York bank on November 7, the following resolution was adopted:

"It is the unanimous opinion of this board that, in the interest of maintaining business and employment, the policy of the Federal Reserve System and this bank for the coming weeks should be to keep a plentiful supply of money in the market through the purchase of bills, if available, and if not, then through the purchase of governments, in order that discounts of the Federal Reserve System may be reduced and at the proper time a further reduction of the discount rate effected, with the objective of securing lower interest rates for business throughout the country."

This resolution was transmitted to the Board on the same date in a letter from the Governor of the New York bank reading as follows:

"At the meeting of our board of directors this afternoon, after discussing current conditions here, as well as the proposed meeting of the Open Market Committee next week, our directors unanimously adopted the enclosed resolution as an expression of their views as to what should be the policy of the System and this bank during the coming weeks.

"The resolution speaks for itself, but it was the general sentiment of the directors that in the present circumstances we should proceed with the purchase of government securities, if, as now seems to be the case,

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bills are not available in adequate supplies, at a rate which will not only provide ample funds for the usual seasonal demands throughout the rest of the year but also permit of a reduction in the total volume of discounts in the System to a point where interest rates for commerce and business may become generally lower. It was their belief that unless this is done, after the events of the past weeks, there may be greater danger of a recession in business with consequent depression and unemployment, which we should do all in our power to prevent.

"In the meantime and in order to maintain an orderly money market at suitable rates during this extraordinary period, we bought $17,000,000 of certificates of indebtedness today, as I discussed with you over the telephone this morning, $5,000,000 for delivery today and $12,000,000 for delivery tomorrow. In view of all the unusual conditions which have prevailed here during the past several days and the need, even now, of avoiding any evidence of a money shortage or a rise in rates during this period of of uncertainty, I think we should continue to make such purchases of governments in reasonable amounts as and when opportunity offers. I shall of course continue to keep you posted currently of any such transactions.

"I hope, however, that it will be convenient to the Board to have an early meeting with the Open Market Investment Committee to discuss the future program of the committee and its operations for System account."

Governor Harrison consulted informally with the members of the Board on November 9 with the result that a meeting of the Open Market Investment Committee was called for November 12, and he again met with the Board for a general discussion of banking and credit conditions on November 11.

At the close of business on November 6, the bill and security holdings of the Federal Reserve System aggregated $1,638,000,000, made up

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approximately of $991,000,000 of rediscounts, $330,000,000 of acceptances and $293,000,000 of Government securities, of which $73,000,000 were in the System's account.

Meeting of November 12, 1929

Preliminary memorandum of Chairman. At the meeting of the Open Market Investment Committee on November 12, the following preliminary memorandum was considered:

"At the last meeting of the committee on September 24 the following resolution was adopted and approved by the Federal Reserve Board:

'The Committee has reviewed a preliminary memorandum and current credit conditions.

'During the past eighteen months interest rates in this country have gradually risen and money, especially for new undertakings, has become more difficult to obtain. While business continues at a high level, there are some indications of a possible impending recession.

'Rates in many foreign centers have risen even more markedly and the loss of reserves of central banks threatens further increases in rates and probable curtailment of Europe's capacity to buy this country's products.

'In accordance with the System policy adopted on August 8th seasonal requirements for Federal reserve credit have been met by bill purchases, and in fact such purchases have been sufficient to reduce rediscounts to some extent.

'For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit, the Committee favors a further

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increase of the open market holdings of the Federal reserve banks. It favors an increase of these holdings by the continued purchase of bills if they can be obtained in sufficient amounts to accomplish this purpose. If bills cannot be obtained in sufficient amounts without interfering with the present desirable distribution, it favors the purchase of Government certificates of the short maturities.

'The Committee therefore recommends that it be authorized to purchase not to exceed $25,000,000 a week of such certificates for account of such banks as care to participate, with the understanding that such purchases be made only under the conditions above stated, and with the further understanding that there be careful current review of the consequences of such purchases, in order that there may be another meeting with the Board at any time that that may seem advisable either to the Board or to the Committee. In any event, the Committee feels that there should be another such meeting not later than November 1st.'

* * *

"Up until mid-October acceptances were offered in sufficient volumes to meet System requirements, but from then on offerings were small due to demand from other buyers, and it was necessary to increase holdings of government securities to achieve the end in view.

". . . until the latter part of October purchases of bills and governments were more than sufficient to meet seasonal needs for Federal reserve funds and bills discounted declined somewhat.

"In the period up to the middle of October the policies pursued were as successful as could have been anticipated. The decline in discounts was followed by easier money rates in New York. The bond market strengthened and, influenced as well by higher money rates abroad, foreign exchange rates

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recovered to a point where gold exports began.

"In the past three weeks the whole credit situation has been changed by a violent decline of stock prices. The result has been a reversal of the credit trends which had continued for two years, - and the Federal Reserve System now faces a very difficult credit situation from that which prevailed a few weeks ago. The major changes in the situation may be summarized as follows:

"(1) The demand for credit for speculative use which for two years made necessary a system policy of protecting its credit, has subsided.

"(2) The conversion of over a billion dollars of brokers loans from other account to bank loans has placed a considerable strain upon member banks and increased their borrowing at the Reserve bank to a total of over $900,000,000.

"(3) Business activity has continued to show some recession and there is a threat of further recession due in part to some destruction of purchasing power and a disturbed psychology due to stock market liquidation.

"These changes have taken place with great rapidity. For some days, in fact, the credit situation in New York appeared to be at a critical stage due to the huge burden thrown upon the New York City banks when other lenders in the Stock Exchange money market suddenly withdrew their funds and borrowers resorted to the New York City banks. This occurred at a time when the security market was going through a panic which might easily have spread more generally to the banking situation. It was in these circumstances that the Federal Reserve Bank of New York on October 29 purchased about $100,000,000 of securities in order to make funds freely available to the money market thus to minimize the possibility of an advance in rates which would have added materially to the difficulties of

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the situation. . . .

"In the following two weeks portions of these security purchases were turned over to the special investment account to make up the $25,000,000 a week of security purchases agreed upon at the last meeting of the committee and by the Federal Reserve Board in the event that bills could not be purchased in sufficient amount.

"Seasonal Expectation. The seasonal expectation in the demand for Federal reserve credit is that this demand will remain relatively constant until the last week in November, and between that time and the end of the year it will increase nearly $300,000,000 due largely to Christmas currency requirements. In the absence of open market operations it might be anticipated that this demand would lead to an increase in rediscounts of member banks from about $900,000,000 at present to about $1,200,000,000. Such a change would ordinarily be accompanied by somewhat more stringent money conditions. After the end of the year it might be expected that the requirement for Federal reserve credit would decrease between $400,000,000 and $500,000,000. A part of the decrease after the first of the year would be absorbed by partial liquidation of the System's portfolio of bankers acceptances, and the remainder would be taken up by reductions in rediscounts or in holdings of Government securities.

"Condition of the Bill Market. The shift of funds from call loans to other employment has been accompanied by a largely increased demand for bankers acceptances as a consequence of which few bills have recently been offered to the reserve banks and total bill holdings have declined during a period when an increase is usual. The present prospect appears to be that this investment demand for bills will continue for some weeks and the Reserve System is likely to receive less than the usual offerings, so that

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little increase in the open market portfolio is to be anticipated from this source."

Action of Committee. At a meeting of the Open Market Investment Committee with the Board that afternoon (November 12) the following report was submitted:

"Since the meeting of the Committee on September 24, the credit situation has changed abruptly. There has been a severe liquidation of credit against securities under circumstances which constitute a serious threat to business stability at a time when there were already indications of a business recession. This seems clearly to indicate the need of having the Federal Reserve System do all within its power toward assuring the ready availability of money for business, at reasonable rates.

"In view of these circumstances and for the purpose of avoiding any increase, and if possible facilitating some reduction, in the total volume of member bank discounts, the Committee believes that the System should be prepared to increase the open market holdings of the Federal reserve banks through the purchase of bills if they can be acquired in sufficient amounts without interfering with their present desirable distribution, and if not, through the purchase of Government securities.

"It is believed by the Committee that this may be done with safety in the interest of business without the risk that funds so put out by the Federal reserve banks would be used to stimulate any abnormal or unnecessary expansion of member bank credit.

"The Committee also has in mind the fact that present conditions may possibly develop to the point where, as an emergency measure, in the interest of maintaining banking and business stability, it may be necessary quickly to purchase large amounts of Government securities in order to

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avoid any undue stringency in credit.

"The Committee therefore recommends that the present limit of $25,000,000 per week on the purchase of Government securities be removed and that the Committee be authorized in lieu therefor to purchase not to exceed $200,000,000 of Government securities for account of such banks as care to participate, in order that it might be empowered and prepared to make purchases of Government securities as and when it may seem to be necessary for the purposes, or in the contingencies outlined above, but only with the understanding that there be a careful current review by the Federal Reserve Board and the Committee of the consequences of any such purchases that may be made, and that another meeting with the Board be held at any time it may seem desirable to the Board or the Committee, and that in any event there be another such meeting not later than the first week in January."

During the detailed discussion of banking and credit conditions which ensued, the attention of the members of the Open Market Investment Committee was called to the fact that the Federal Advisory Council will hold its next meeting in Washington on Tuesday, November 19, and they were advised that the Board believed the views of the Council should be obtained before any System policy is definitely decided upon.

A canvass of the members of the Open Market Investment Committee disclosed that in requesting authority to purchase not to exceed $200,000,000 of Government securities for account of such banks as care to participate, the members did not have in mind that such purchases should be made under any circumstances but rather that the Committee should be in position, in the exercise of its judgment, to make such purchases should conditions warrant.

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Governor Harrison pointed out that the authority granted following the meeting of the Committee on September 24, to purchase not to exceed $25,000,000 of securities a week would permit the purchase of approximately $200,000,000 between now and the first of the year but that it was believed desirable that the Committee should not be limited to the purchase of $25,000,000 at any one time.

There was some discussion as to the advisability of a further reduction in rates by the Federal Reserve banks in lieu of purchases of Government securities and Governor Harding advised the Board that the directors of his bank, at their last meeting, considered reducing the rate of that bank to 4-1/2 per cent. He discussed the matter with members of the Board, some of whom pointed out the undesirability of a reduction in the discount rate without a corresponding reduction in the bill rate.

Letter from Board to Chairman. The Board in executive session following the meeting with the Committee considered the Committee's report but no action was taken until the next day, November 13, when a letter to the Chairman of the Committee, reading as follows, was adopted and ordered transmitted:

"The Federal Reserve Board has had under consideration the report of the Open Market Investment Committee, dated November 12, and notes that the Committee's recommendations relate, (1) to the more permanent features of open market policy and, (2) to a possible emergency operation.

"The Board feels that the general situation is not sufficiently clarified for the System to formulate and adopt a permanent open market policy at this time. The Board has that under continuous consideration and will be glad to confer further with the Committee as we approach more nearly steadied credit conditions.

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"The Board fully appreciates the possibility that a situation may arise speedily that will call for an open market operation on the part of Federal reserve banks by the purchase of Government securities. To this end the Board has arranged to act promptly on the application of the Committee or any Federal reserve bank to purchase securities in a sudden contingency. It has authorized the Governor, should the Board not be immediately available, to act on its behalf in giving approval in an emergency to purchases. In the event that an emergency should arise with such suddenness and be so acute that it is not practicable to confer with the Governor, the Board will interpose no objection to a purchase operation being undertaken, with the understanding, however, that prompt advice of such purchase be furnished the Board.

"This action of the Board supersedes the authority which was granted to the Open Market Investment Committee on September 24, 1929, to purchase not to exceed $25,000,000 per week of Government securities."

Communications on Open Market Operations and Discount and Buying Rates, Mid-November-December 1929.

Letter from New York Bank to Board, November 14. Under date of November 14 the following letter was addressed to the Board by Deputy Governor Case:

"The Government security transactions effected since my letter of November 7, 1929, may be summarized as follows:

Balance on November 6, 1929, held by		
Federal Reserve Bank of New York	$ 107,652,000	
Purchases in market	39,150,000	
	$ 146,802,000	
Less transfer to System Account, Nov. 7, 1929	25,000,000	
	$ 121,802,000	

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Plus purchase from Federal Reserve Bank of Cleveland (which was a transfer from their portfolio)	$ 15,157,950
	$ 136,959,950
Less transfer to System Account, Nov. 14, 1929	25,000,000
Balance at close of business Nov. 14, 1929.	$ 111,959,950

"The transfers to System Account referred to above bring the total in the System Investment Account at the close of business today, to $122,500,000.

"Our sales contracts, which a week ago stood at $8,750,000, were practically wiped out at the close of business yesterday, a reduction during the week of approximately $8,000,000.

"While the volume of trading in the Government security market during the past week has not been in so large an amount as in the preceding week, the demand has continued good, with the buying orders coming principally from the banks. Prices of practically all issues show fractional gains over last week, and several of the issues are selling at - or close to - the high prices for the year 1929. . . ."

Reduction of New York Bank discounts and buying rates. At a special meeting of the Executive Committee on November 14, Mr. Cunningham reported that Governor Young, who was in New York, had called him on the telephone and asked for the reaction of members of the Board in Washington on a recommendation which Governor Harrison contemplated making to his Board of Directors that the discount rate of the New York bank be reduced to 4-1/2 per cent and that a bill rate of 4-1/2 per cent also be established. After discussion it was decided to advise Governor Young as follows:

"The Board is of the opinion that any action with regard to the

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discount rate at this time is primarily a matter for the judgment of the directors of the New York bank. The Board will support them in any action they take, whether that be to leave the rate where it is or to reduce it to 4-1/2%. In the event that the discount rate should be reduced, the Board would expect that the acceptance rate would be similarly reduced."

At a meeting in the afternoon the Vice Governor reported that the directors of the Federal Reserve Bank of New York had voted to establish a rediscount rate of 4-1/2 per cent and also to establish a minimum bill rate of 4 per cent with the expectation that a buying rate of 4-1/4 per cent would be made effective. Both the discount rate of 4-1/2 per cent and the minimum bill rate of 4 per cent were approved by the Board, the discount rate to become effective November 15. At the meeting of the Board on November 16 the following schedule of buying rates, made effective at the New York bank on November 15, was noted with approval:

Bankers acceptances:		
1 to 120 days	-	4-1/4%
121 to 180 days	-	4-1/2%
Repurchase	-	4-1/4%
Trade acceptances	-	4-1/2%
Governments repurchase	-	4-1/2%

(Secretary's Note: On November 21 the Federal Reserve Bank of Boston, with the approval of the Board, reduced its discount rate from 5 per cent to 4-1/2 per cent.)

Letter from New York Bank to Board, November 21. Under date of November 21 the following letter was received from Deputy Governor Case:

"Since my last letter to you under date of November 14, 1929, there have been no further additions to the total amount of this bank's holdings of Government securities, the amount of such holdings remaining at $111,969,950 par value. Moreover, no transfers to the Open Market Investment Account have been made since November 14, the amount of securities

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in the System Account standing at $122,500,000. . . ."

At the meeting of the Board on November 22, the following schedule of buying rates on acceptances at the Federal Reserve Bank of New York, effective November 21, was noted with approval:

1 to 120 days	-	4%
121 to 180 days	-	4-1/2%
Repurchase	-	4%

(Secretary's note: At a special meeting of the Board on November 22 approval was given to a rediscount rate of 4-1/2 per cent, established by the board of directors of the Federal Reserve Bank of Chicago, effective November 23.)

At the special meeting on November 22, the Governor, or in his absence, the active executive officer of the Board, was authorized to approve a discount rate of 4-1/2 per cent established by the directors of any Federal Reserve bank.

Letter from Harrison to Board on liquidation of sterling bills, November 22. The following letter was received from Governor Harrison under date of November 22:

"You will be interested to learn that negotiations have just been completed with the Bank of England for the liquidation of our special sterling bill account amounting to approximately £3,300,000 which we have been maintaining in London for the past few months. We received a cable from the Bank of England the other day offering to repurchase these sterling bills from us at the current rate of exchange, payment to be made to us in New York from the holdings of dollars of the Bank of England.

"You will recall that we purchased these bills at a time when sterling exchange was in the neighborhood of the gold import point from London, slightly under $4.85, and the present improved position of sterling

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appears to afford a satisfactory opportunity to liquidate them. The average cost of the sterling to us was about $4.8480 and we are now being paid by the Bank of England at $4.87 1/2. This makes a profit on the exchange transaction of about $89,000 in addition to which there has been the discount earned since the bills were purchased. This will be augmented by some profit derived from the discounting of the bills with the Bank of England at rates lower than those at which they were purchased."

Board action on procedure for approving open market operations. At the meeting of the Board on November 25, the Governor referred to the resolution adopted by the board of directors of the Federal Reserve Bank of New York on November 7, which was presented to the Board on November 8, and the report submitted to the Board by the Open Market Investment Committee on November 12 regarding System open market policy and reviewed the action of the Board on November 13 in addressing a letter to the Chairman of the Open Market Investment Committee, setting forth arrangements made for prompt consideration by the Board of any emergency open market operation that may be necessary but expressing the Board's feeling that the general situation was not sufficiently clarified for the System to formulate and adopt a permanent open market policy at that time. He advised the Board that the directors of the Federal Reserve Bank of New York subsequently authorized the officers to purchase $50,000,000 of Government securities at their discretion for account of that bank. He stated that he discussed last week with Directors Young, Woolley and Reyburn of the New York bank, who were in Washington attending the President's conference, the matter of procedure in open market operations, advising them of the position of the Board that it has the duty and responsibility under the Federal Reserve Act of passing upon open market operations by the Federal

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Reserve banks. These directors, he stated, expressed the opinion that it was entirely within the rights of the Board for it to concern itself about purchases in the open market and that all such major operations should have the approval of the Board, although it seemed to them that the Board would not care to have ordinary transactions in small amounts submitted to it. They expressed the opinion that the New York bank or the Open Market Investment Committee should submit to the Board recommendations as to policy and if approved by the Board should request and receive authority to make purchases to carry out such policy. The Governor stated that this appears to him to be the solution of the difficulty which has existed between the New York bank and the Board regarding jurisdiction in open market operations. He also stated that Governor Harrison of the New York bank was in Washington on Saturday and advised that he is prepared to recommend to his directors that the New York bank refrain from major credit operations in the open market on its own account, except with the approval of the Board.

After discussion, it was voted to approve the general principles as to System policy laid down by the New York directors in their resolution of November 7 and the Open Market Investment Committee in its report of November 12, and to give authority to the Committee in accordance with the following letter transmitted to the Chairman under date of November 25:

"Under date of November 13th, following consideration by the Board of the report submitted by the Open Market Investment Committee on November 12th, you were advised that, in the opinion of the Board, the general situation was not sufficiently clarified for the System to formulate and adopt a permanent open market policy at that time.

"The Board has reconsidered this action and has voted to approve

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the general principles as to future policy laid down in the report of the Open Market Investment Committee and the resolution adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on November 7th, which you transmitted to the Board with your letter of the same date. Accordingly, the Board authorizes the Open Market Investment Committee to purchase, from time to time, not to exceed in the aggregate $200,000,000 of Government securities, with the understanding that if at any time the Board feels that purchases are being made too rapidly, it will so express itself to the Committee and reconsider the whole situation."

Letter from New York Bank to Board, November 27. The following letter was sent to the Board by Deputy Governor Case under date of November 27:

"Since my last letter to you dated November 21, 1929, there have been no changes in the total holdings of government securities in the Open Market Investment Account, the amount remaining at $122,500,000. Of this amount $100,000,000 are short maturities, $50,000,000 maturing December 15, 1929 and $50,000,000 in March and June of next year. The balance, $22,500,000, is made up of 3-1/2% Treasury notes of 1930-32. The holdings of this bank have likewise remained unchanged at $111,969,950. . . ."

Letter from Harrison explaining open market actions, November 27. Under date of December 3 the Chairman of the Open Market Investment Committee, in a letter transmitting copy of one written by him to all Governors under date of November 27, advised the Board as follows:

"I am glad to enclose herewith for your information a copy of a letter which I sent to each of the other Governors on November 27, when transmitting a copy of the Board's letter of November 25 relative to the

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report of the Open Market Investment Committee.

"As I explained to you over the telephone yesterday, several of the reserve banks have made inquiries about the development of conditions in this market during the past several weeks, with special reference to our large purchases of government securities the end of October. Because of these inquiries I thought it just as well to send some sort of a review to each of the Governors, especially as it has such a direct bearing upon any purchases of securities that may be made in accordance with the report of the Open Market Investment Committee. At the present time, seven banks are participating in these purchases. Of the remaining five, Cleveland and Richmond have written to us that they would take up with their directors the question of participation just as soon as it is possible to do so."

The letter to all Governors, referred to above, is as follows:

"On November 19 we forwarded to you and to the Governor of each of the other Federal reserve banks a copy of the report of the Open Market Investment Committee adopted at its meeting in Washington on November 12, and a copy of the Federal Reserve Board's letter dated November 13.

"We have just received a further communication from the Federal Reserve Board, dated November 25, in which Governor Young states that the Board has reconsidered the action taken on November 13 and has voted to approve the general principles as to future policy laid down in the report of the Open Market Investment Committee and the resolution adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on November 7. For your information, and the information of your directors, I am enclosing a copy of Governor Young's letter of November 25 together with a copy of the resolution of our directors to which it refers.

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"While it is difficult at this time, in the scope of a letter, to give any very satisfactory review of the developments in this market during the past five or six weeks, nevertheless I hope you will let me comment more or less informally and in a general way regarding the situation as it related to this bank and credit policies which we felt it necessary to adopt.

"Some of the Federal reserve banks have already written to me making certain inquiries, especially in relation to our purchases of government securities. It has occurred to me, therefore, that you, too, may be interested in a brief picture as we now see it.

"The very sudden and drastic liquidation in the stock market, accompanied by the calling of loans for out-of-town banks and others, naturally resulted in a tremendous shift in loans to our own member banks just at a time when the stock market itself was weakest and the mechanical apparatus of the exchange was taxed to its utmost. Our particular problem was to endeavor to maintain an easy money position throughout the whole period lest any evidence of a shortage of funds or an increase in money rates might lead to some sort of a money panic. If we should have added to the panicky state of mind relating to security values any fear of a money shortage, we might indeed have faced the most serious calamity. With this in mind, we kept our discount window wide open and let it be known that member banks might borrow freely to establish the reserves required against the large increase in deposits resulting from the taking over of loans called by others. In addition to this we went into the market, as you know, and bought large blocks of government securities, partly for psychological reasons but largely because we felt it so important that there should be no tightening of money during the period of such large transfers of loansto our own member banks. As we look back now, it is not

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at all unlikely that had we not bought governments so freely, thus supplementing the reserves built up by large additional discounts, the stock exchange might have had to yield to the tremendous pressure brought to bear upon it to close on some one of those very bad days the last part of October.

"For the moment, the stock market seems to have quieted down. There has been a vast liquidation of security loans, and funds transferred to New York from all over the country, to replenish margins or to pay for investments, have made for great ease in this market. While this surplus of funds is now lessening, we have not yet any money shortage. It is possible, however, that with the outflow of money now in progress and the increase in currency demand now beginning, money rates may very quickly tighten.

"For a year or two the Federal Reserve System has directed most of its policies towards pressure upon the credit situation in order that it might minimize the amount of funds being employed for unnecessary or speculative purposes. We sold well over $400,000,000 of government securities and liquidated an equally large bill portfolio. Both of these operations tended to force member banks into our debt, so that we had a total volume of discounts in the System averaging over a billion dollars. Even now, after the liquidation of the stock market and consequent reduction in call loans, the total volume of discounts in the System approximates $900,000,000. And we do not have to go very far back in our history to realize that when the total volume of discounts is anything like the present level, we do not have the basis for easy money rates. Indeed, commercial paper rates and over-the-counter rates to customers fluctuate almost precisely as the total volume of discounts fluctuates, and it is questionable whether we can anticipate generally easier rates or easier money

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conditions until the volume of discounts as a whole is substantially reduced.

"With the stock market out of the way at the moment and with little or no reason to fear that funds which we might put out will be employed for speculative purposes, the question immediately presents itself as to how we can most safely and quickly effect a reduction in the volume of discounts as a whole. Certainly we do not want to liquidate the total volume of reserve credit by forcing a deflation of two or three hundred million dollars in discounts at a time when business is obviously hesitiating, commodity prices are declining, and when there are more evidences of a recession than of an over-expansion in any line. That being so, it seems to us that if we hope to accomplish a reduction in discounts to a point which will make money readily available, we must do so by a substantial increase in the System's open market portfolio. This will enable member banks to use the funds which we put out to pay off discounts and thus pave the way for a greater availability of funds for business at reasonable rates, open the bond and mortgage market, and establish for the first time in two or three years a more normal money position.

"As we look ahead, it is not likely that the total volume of Federal reserve credit will average much less than, say, eleven or twelve hundred million dollars, perhaps thirteen or fourteen hundred million dollars. The growth of the country during the past year or so would seem clearly to justify this level of Federal reserve credit except as it might be altered by substantial gold movements. If that is true, it seems to us that we might expect the need of having, say, half of our total earning assets in open market portfolio, bills or governments.

"The tremendous investment demand for bills has made it impossible

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and unwise for us to seek to acquire that form of investment any faster than we have. To do so would only dislodge what is now appearing to be a fairly satisfactory open market distribution of bills. That leaves us governments as the only effectively substantial means of operating in the open market at this time; and now that the Federal Reserve Board has approved of a program that will permit of such an operation, I hope that you will let us know, after you have had an opportunity to discuss it with your directors, whether you care to participate in any purchases that may be made in execution of the policy recommended by the committee and approved by the Federal Reserve Board.

"It may well be that future developments will make it unnecessary or unwise to pursue any very substantial program of purchases. If so, we could of course proceed accordingly, but at the moment, with gold going out and facing a period of increased demand for currency, perhaps amounting to 250 or 300 millions, it seems that we have every reason to buy governments rather than to remain quiescent and force banks to increase their discounts to obtain necessary reserves. If we do that, instead of having nine or ten hundred millions of discounts, we may have twelve or thirteen hundred millions and postpone more or less indefinitely a return to a volume of discounts which will make easier money rates throughout the country possible.

"At the moment New York City banks are borrowing practically nothing from the Federal reserve banks. They are not only out of debt to us but have had large sums of money over, so that Federal reserve funds in New York have been selling at a substantial discount. On the other hand, member banks in other districts are heavily in debt, some reserve banks showing discounts as of November 20 in excess of one hundred million dollars.

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With this picture in mind, it would seem logical and desirable that any open market purchases made in System account in execution of the policy above referred to might better be made in those districts where discounts are heaviest. To the extent that this can be done it seems to us that it would be wise. It is probable, however, that most of the purchases in the execution of the program would have to be made in New York owing to the unavilability of securities in other markets. That would keep our member banks out of debt, leave them with funds over and lead them to reduce rates. That in turn would tend to force funds back into the interior as has been the case in the past two or three days, when very substantial transfers of funds have been made from New York to the interior. If and when that proceeds far enough, rates will again tighten up in New York. Our banks may be forced back into debt and then by the purchase of additional governments, they would be let out of debt, would find themselves with funds over and would repeat the process. Thus, by a gradual see-saw operation, we would be able to provide funds to the rest of the country with which discounts in other districts might be reduced. It is important, however, that we should not proceed so fast as to make funds in this or any market unnecessarily sloppy, but equally important that we proceed fast enough to avoid any tightening of rates that would unnecessarily check the seepage of funds to other districts.

"I hope you will forgive the length and informality of this letter. There are so many variable factors in the situation that it is difficult definitely to prognosticate. At the moment, however, it seems to us that this is about the way a program of purchases would operate. In any event I should be very glad to have your views and reactions."

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Letters from New York Bank to Board during December. On December 4, Deputy Governor Case of the Federal Reserve Bank of New York reported to the Board as follows:

"The holdings of government securities in the Open Market Investment Account have been increased by $30,000,000 since my letter of November 27, and now total $152,500,000. Additional purchases were made and apportioned to participating Federal Reserve banks yesterday, amounting to $15,990,000, and today, $14,010,000. . . ."

(Secretary's note: On December 5, the Board approved a rediscount rate of 4-1/2 per cent, effective December 6, for the Federal Reserve Bank of San Francisco, and on December 10, with the approval of the Board, the Board of Directors of the Federal Reserve Bank of Atlanta established a 4-1/2 per cent rediscount rate at that bank.)

Under date of December 11, Deputy Governor Case wrote as follows:

"The holdings of government securities in the Open Market Investment Account have shown an increase of about $25,000,000 since my letter to you under date of December 4, 1929, the total tonight being $177,675,000 as against $152,500,000 a week ago. These additional purchases have been apportioned among the nine participating Federal reserve banks. . . ."

At the meetings of the Board on December 11 and 12, the question of the reorganization of the Open Market Investment Committee was discussed but no action taken.

The following letter was received from Deputy Governor Case under date of December 18:

"There has been an increase of $45,000,000 in the holdings of government securities in the Open Market Investment Account since I wrote you on December 11, our holdings at the close of bussiness tonight being $222,675,000, as against $177,675,000 on December 11.

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"In addition to the special certificates of indebtedness which we have been carrying for the last day or two to cover the Treasury overdraft (which will in all probability be wiped out tonight), our own holdings of government securities show a temporary increase of $9,000,000 incidental to the Treasury's financing during the week.

"Our holdings of government securities under sales contract agreements have also shown an increase, $23,375,000, for the week, the total amount held tonight being $23,925,000 as compared with $550,000 at the close of business December 11. . . ."

(Secretary's Note: On December 19 the Board approved a rediscount rate of 4-1/2 per cent on all classes of paper of all maturities, effective December 20, for the Federal Reserve Bank of Kansas City.)

The following letter was addressed to the Board by the Deputy Governor of the New York Bank under date of December 26:

"There has been an increase of $39,700,000 in the holdings of government securities in the Open Market Investment Account since I wrote you on December 18, the total holdings in the Account at the close of the statement week ending December 24 being $262,375,000, as against $222,675,000 on December 18.

"Meanwhile, our holdings of government securities under sales contract agreement have shown a decrease of $14,750,000 for the week, the total amount held at the close of business December 24 being $9,175,000, as compared with $23,925,000 at the close of the previous week. . . ."

At the meeting of the Board on December 31 there was a discussion regarding the credit situation and System open market policy over the turn of the year, attention being called to the fact that the Open Market Investment Committee retained at that time some leeway under the authority

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granted to it to purchase not to exceed $200,000,000 of Government securities although it was suggested that the Committee be authorized to sell Government securities after the turn of the year, no action was taken.

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Developments during 1930

Communications on Open Market Operations, Early January 1930

At the meeting of the Board on January 2, the Governor reported a conversation on Tuesday with the Governor of the Federal Reserve Bank of New York during which he was advised that the Open Market Investment Committee is no longer buying Government securities and does not desire at this time to sell any securities until developments over the turn of the year can be tested out. Governor Harrison advised him, he stated, that it is believed the initial reduction in Federal Reserve credit outstanding will come about from a decline in bills and securities held under repurchase agreements and that it is believed that it would be a mistake to have a meeting of the Open Market Investment Committee before next week. The Governor stated he is inclined to agree that it would be better to postpone any meeting with the Open Market Investment Committee until after January 7.

Letters from New York Bank to Board, January 2 and 8. Mr. Case wrote the Board on January 2, as follows:

"Since I wrote you on December 26, 1929, there has been an increase of $15,125,000 in the holdings of government securities in the Open Market Investment Account, the total heldings at the close of business December 31 being $277,500,000, as against $262,375,000 the week before.

"Our holdings of government securities under sales contract during the same period have increased $12,675,000, or from $9,175,000 to $21,850,000 during the week. This increase, however, we believe will be temporary, as the dealers anticipate being able presently to obtain their accommodations in the outside market. . . ."

Under date of January 8, Deputy Governor Case wrote as follows:

"There has been no change in the holdings of government securities

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in the Open Market Investment Account since I wrote you on January 2, 1930, the total remaining at $277,500,000.

"Our holdings of Governments under sales contract, however, during the same period have decreased $13,585,000 (from $21,850,000 to $8,265,000) and we understand this balance will be taken up today. As you were advised on Monday, this bank's holdings of government securities were reduced on that day by approximately $10,000,000. . . ."

Letter from Harrison to Banks not members of the Committee, January 11. At the meeting of the Board on January 11, Governor Harrison of the New York Bank discussed informally with the Board the matter of System policy and presented copy of the following letter addressed by him under date of January 10 to the Governors of those Federal Reserve banks not represented on the Open Market Investment Committee:

"While you have been receiving formal reports of the Open Market Committee currently, it has occurred to me, now that we have turned the end of the year, that it may be helpful to review conditions and prospects as we now see them, especially as they relate to the System policy recommended by the Open Market Committee and approved by the Federal Reserve Board in November.

"As you will remember, that policy was, in substance, that the Federal Reserve System should do all within its power toward assuring the ready availability of money for business at reasonable rates. With this in view, the committee recommended a program of open market operations that would avoid any increase and, if possible, facilitate some reduction in the total volume of member bank discounts, since a large volume of discounts has always been an inevitable obstacle to easy money conditions generally.

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"It seems to us, as we now see the problem, that while we have made excellent progress towards our objectives, there is no occasion at the present time to change our policies or objectives, although it must be recognized that there is now a real difference in the machinery or means to be employed in accomplishing them now that we have turned the end of the year.

"During the fall, and especially during the month of December, the seasonal demand for currency and Federal reserve credit will usually average about $300,000,000. During the past two months, the demand for currency was slightly less than usual, but this difference in currency payments was far more than offset by an outward flow of gold aggregating about $110,000,000.

"While Federal reserve figures were much distorted as a result of the crisis in the stock market and the consequent shifting of loans by 'others' back to our member banks, nevertheless total Federal reserve assets expanded during this fall period, that is, from the end of August to December 24, by a little over $300,000,000, or about the usual seasonal amount. Between November 27, immediately after the approval of the Open Market Committee's report, and December 24, total Federal reserve credit expanded about $100,000,000, or just about the amount of gold exports. The seasonal requirements for currency which were slightly less than usual this year were almost fully offset by the reduction in member bank credit and reserve requirements following the sharp upturn the first of November.

"During this period of four weeks, November 27 - December 24, open market operations of the System comprised the purchase of $155,000,000 of government securities and an increase of about $100,000,000 in bills, including repurchase agreements - an increase of $255,000,000 in the total

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open market holdings of the System, or a net increase in such holdings of about $150,000,000 beyond the amount of gold exports. As a result of all these operations there was a reduction in System discounts of almost precisely $150,000,000 during the same period.

"Thus up until Christmas we were successful not only in avoiding any increase but in actually accomplishing some reduction in member bank discounts and thus in securing some relief in the general credit situation despite the seasonal demand for credit and an additional demand due to gold exports.

"Since Christmas the usual return flow of holiday currency and the reduction in credit requirements have by the natural process carried further the easing operation which before Christmas we facilitated by the purchase of government securities. The latest report shows that member bank discounts are now down to a little under $600,000,000, or about what they were in the spring of 1928. In this way the first technical step has been taken toward removing one of the obstacles to an easier credit position. It cannot be said, however, that the country has yet the full benefit of freely available credit at reasonable rates. The bond market is somewhat improved but is still restricted. Mortgage money is difficult to obtain, and while over the counter rates and commercial paper rates have both declined at the principal centers they are still considerably higher than they were before the period of huge speculative demand for credit. It will evidently take some time before these conditions are corrected, but at least some of the obstacles to a restoration of more normal credit conditions have been removed.

"In the meantime the evidences of business recession have become constantly clearer. Car loadings, bank debits, and commodity prices show a

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continuous decline and employment reports which we have just received for New York State show a reduction in factory employment of 4 per cent in December.

"In view of all the facts we do not see any occasion at the present time for a change in the general objectives of System policy formulated in November.

"It seems to us, however, and to the other members of the committee that in view of the progress we have already made and in view of the uncertainties in the credit situation pending an unwinding of the year-end movements, there is no need at this time for any further purchases of government securities. On the other hand, there are a number of factors in the situation which make us believe that there is no need just now for any sales from the System Account. As we see it, continued large holdings of bankers acceptances under repurchase agreement, substantial maturities during January of bills held outright for the System, member bank discounts, and possible gold exports, are all factors which will tend to mop up the return flow of currency and credit in amounts sufficient to avoid any sloppiness in the money market.

"In all the circumstances we feel that there is probably no need to have a meeting of the Open Market Committee before the last week in January, when we will have a still better picture of the effect of the usual seasonal credit operations during the month. In the meantime, we recognize that it will be necessary to watch the situation carefully and that, as always must be the case, we should be prepared, in the event of any sudden change in conditions or the development of any need, promptly to reconsider and, if necessary, amend our present program and policies.

"I should very much appreciate any comments which you may care to

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give us regarding these open market policies or any suggestions which you may care to have the committee consider at its meeting the latter part of this month."

(Secretary's note: On January 15 the Board approved a discount rate of 4-1/2 per cent on all classes of paper of all maturities, effective January 16, at the Federal Reserve Bank of Philadelphia.)

Letter from New York Bank to Board, January 15. Under date of January 15, Deputy Governor Case wrote the Board as follows:

"The total holdings of government securities in the Open Market Investment Account remain the same as they were on January 8, 1930, the date of my last letter to you; namely, $277,500,000. There was, however, some change in the amount of holdings by the individual banks in the Account by virtue of the sale by the Federal Reserve Bank of St. Louis, during the week, to the other participating banks of $10,000,000 of its participation in government securities in the System Account.

"There has been no change in the outright holdings of this bank during the week. However, our holdings of government securities under sales contract have decreased by $5,885,000, being $2,380,000 at the close of business today as against $8,265,000 a week ago. . . ."

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Establishment of Open Market Policy Conference, January 1930

Letter from Board to Reserve Banks. At the meeting on January 16, Dr. Miller submitted a suggested revision of open market investment procedure which was adopted by the Board, and he was instructed to prepare and submit a letter to all Federal Reserve banks advising of the Board's action. This letter was submitted by Dr. Miller at the meeting on January 21 and while no action was taken at that time, the Governor was authorized to advise the banks by telegraph that the Open Market Investment Committee had been enlarged to include all banks, that a letter outlining the new procedure would follow shortly, and that a meeting of the committee would be held in Washington on January 28. At the meeting on January 23 the following letter submitted by Dr. Miller at the meeting on the 21st was approved and ordered transmitted:

"This letter invites the attention of your bank to changes which the Federal Reserve Board, after prolonged consideration of the matter, has concluded should be made in the existing procedure governing open market operations.

"It may be recalled that it was in April 1923, that the present procedure with regard to open market operations was adopted. In the preceding year many of the Reserve banks, in order to maintain portfolios of earning assets, entered the market on their own separate accounts to purchase United States Government securities, without much regard to the effects of their operations on the market for Government securities or on credit conditions. It was found necessary, in consequence, to give to open market operations a status which recognized their credit effects and economic consequences and also their effects on the position of each Federal Reserve bank.

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"A copy of the Board's resolution containing an outline of the procedure adopted in 1923 is herewith enclosed. Under this procedure the principle governing open market operations was defined and its application and practice left to a Committee consisting of five Reserve banks acting under the general supervision of the Federal Reserve Board.

"The principle was stated as follows:

'That the time, manner, character and volume of open market investments purchased by Federal Reserve banks be governed with primary regard to the accommodation of commerce and business, and to the effect of such purchases or sales on the general credit situation.'

"The five banks constituting the Open Market Investment Committee were the following:

Federal Reserve Bank of Boston
Federal Reserve Bank of New York
Federal Reserve Bank of Philadelphia
Federal Reserve Bank of Cleveland
Federal Reserve Bank of Chicago

"Although the necessity of giving to open market operations a System status was recognized in 1923, it was not then foreseen how much use would be made of the open market operation as an instrument of Federal reserve credit policy. As a matter of fact, frequent resort has been taken to open market operations--either by purchase or sale of United States Government securities--as a mode of policy in the five years following the 1923 arrangements.

"The experience of this period shows that the open market operation, when involving other than trifling amounts, may be of first-rate importance in altering credit conditions even when viewed on a national scale.

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"It is not surprising, therefore, that suggestions should have been made that the System character of open market operations should be fully recognized by having all twelve Federal Reserve banks, instead of five as at present, represented in the shaping of open market policy. Views to this effect have been expressed informally by Reserve banks not included in the existing setup, and formally by the Federal Advisory Council in the following recommendation adopted in September 1928:

'The Federal Advisory Council without any intention of criticising the present arrangements but in order that all governors of the Federal Reserve banks may participate in the discussions leading up to actions of the Open Market Committee suggests to the Federal Reserve Board to consider the advisability of having the membership of the Open Market Committee consist of all the governors of the Federal Reserve banks with an executive committee composed of five members with full power to act.'

"For the reasons briefly set forth above, the Board has drawn up a revision of the 1923 open market procedure, which embodies a fuller recognition of the joint interest and responsibility of the Federal Reserve banks and the Federal Reserve Board in the matter of open market policy. The elements of this procedure are contained in a memorandum adopted by the Federal Reserve Board reading as follows:

'(1) The Open Market Investment Committee, as at present constituted, to be discontinued and a new committee, to be known as the Open Market Policy Conference, to be set up in its place.

'(2) Each Federal Reserve bank to be represented on the Open Market Policy Conference.

'(3) The Conference to meet with the Federal Reserve Board at such times as may be arranged by or with the Board.

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'(4) The function of the Open Market Policy Conference to be to consider, develop and recommend plans with regard to the purchase or sale of securities in the open market.

'(5) The time, character and volume of such purchases and sales to be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

'(6) The conclusions and/or recommendations of the Open Market Policy Conference to be submitted to each of the Federal Reserve banks and to the Federal Reserve Board for consideration and/or action.

'(7) A committee to be known as the Open Market Executive Committee to be constituted for the purpose of executing such purchases and sales of securities as have been approved by Federal Reserve banks and the Federal Reserve Board.'

"Such further working arrangements as may be found necessary to make the above outlined plan operative will, in the opinion of the Board, best be determined by the Conference itself when it is organized.

"The Board believes that the above procedure contains the essentials of a workable plan designed to give expression to the common interest of the Federal Reserve banks in matters of open market policy and to provide a reasonable and practicable method for joint action. After your bank has had time to consider the plan, the Board will welcome an expression of your views."

Current letter from New York Bank to Board, January 22. On January 23 the following letter, dated January 22, was received from Deputy Governor Case:

"There has been no change in the holdings of government securities in the Open Market Investment Account since my letter to you under date of

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January 15, 1930, the amount remaining at $277,500,000. The outright holdings of this bank have likewise remained at the same figure as reported last week, while our sales contracts in government securities have all been paid off.

* * * "

Under date of January 23 the Board was advised that the Board of Directors of the Federal Reserve Bank of New York at its meeting on that day voted to request the Federal Reserve Board to reduce to 3-1/2 per cent the minimum buying rate approved by it for the purchase of bankers' acceptances, and subject to such action by the Board, to establish a minimum rate of 3-1/2 per cent at or above which currently effective rates may be fixed. This matter was considered at the meeting on January 24, during which the Governor advised it was his understanding that if the minimum rate of 3-1/2 per cent were approved by the Board, the bank planned to reduce its effective rates slowly, at first by one-eighth per cent only to 3-7/8 per cent on short maturities, but action was deferred pending a discussion of business and credit conditions at the meeting of the Open Market Investment Committee on January 28.

Discussion at January 28 meeting of Conference. At the meeting of the Open Market Policy Conference held in Washington on January 28, at which all Federal Reserve Banks except Kansas City were represented, Governor Young explained "that this is the first meeting of the Open Market Policy Conference attended by representatives of all of the Federal Reserve banks and that no formal procedure has as yet been set up. He referred to the policy adopted by the System in November and comments which had been received from various sources as to its continuance or change. He stated that the directors of the Federal Reserve Bank of New York have requested

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the Board to approve a reduction to 3-1/2 per cent in the bank's minimum rate for purchases of bankers acceptances with the idea of reducing the effective buying rate perhaps 1/8 per cent to 3-7/8 per cent. He stated that the matter has been permitted to go over pending discussion at this meeting, as has the question of a further reduction in discount rate which has been also under consideration at the New York Bank."

The Governor requested the individual members of the Conference to express themselves on the advisability of a cautious program of ease through the bill rate and also on the question of a possible further reduction in the discount rate.

"Governor McDougal, after expressing the attitude of the Chicago board, which has had under consideration the lowering of the discount rate, said he believed this action might be taken in the near future if the directors could agree that it would be a stimulus to legitimate business. In regard to the proposed reduction in the bill rate, he stated he could not quite see the propriety of such action at the moment but that he certainly would not favor any action which would tighten the situation.

"Governor Norris expressed the opinion that the program adopted in November has been accomplished and that no further easing should be effected. He stated he would not favor a reduction in the discount rate at this time, although he would approve a small reduction in the bill rate to keep the System in the bill market and prevent liquidation of the entire System portfolio and not for the purpose of increasing holdings.

"Mr. Burgess pointed out that the directors of the New York Bank would not expect to ease the credit situation through the bill rate but rather prevent its hardening with the approach of spring. He stated he did not believe a 3 7/8% bill rate would impede the distribution of bills

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although it would take over some of the dealers' portfolios and prevent a too rapid decline in the System's holdings. He stated that in the opinion of the New York directors with the present volume of rediscounts a reduction in the discount rate would be logical.

"Governor Harrison reviewed briefly the policy adopted in November. The policy was made effective in December, he stated, through purchases of Government securities and in January through the seasonal return flow of currency. He expressed the opinion that before discussing future mechanics it should be determined whether the policy is to be continued.

"Deputy Governor Paddock stated that the situation in the First District has cleaned up better and more rapidly than was expected but there are still some collateral loans which should be liquidated. He stated his bank would like to see a policy of marking time for the present until something more definite develops, and then probably begin with a reduction in the bill rate.

"Governor Fancher stated that he thought the System policy should be to keep money fairly comfortable and that he would favor a reduction in the bill rate. With regard to a reduction in the discount rate, he stated his bank is still at 5%, the directors feeling that some pressure should be continued a while longer to assist liquidation and though it may later--toward the end of February--reduce to 4 1/2%, he thought it would stay at that rate for some time.

"Governor Talley stated that up to this time his bank has been in favor of the execution of the System policy, but he would not now approve a reduction in the bill or discount rates. He expressed the opinion that the System can err more readily at the present time by easing than by doing

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nothing, and stated he would be opposed to any specific movement to ease.

"Governor Martin expressed the opinion that the results sought in the November policy have been obtained. He stated he thought a reduction in the discount rate right now would be a movement in the wrong direction as he does not believe business is suffering because it cannot get money at reasonable rates and a reduction might retard further liquidation. He also stated that if a reduction in the bill rate would result in a fairly immediate lowering of the discount rate, he would not favor that at the present time.

"Governor Black expressed the opinion that a policy of ease should be continued. He stated that his bank would favor a reduction in the bill rate, and, if it had an opportunity, would probably reduce its own discount rate of 4 1/2%, in an effort to obtain reasonable rates for business.

"Governor Geery stated that his bank maintains a 5% discount rate, which is below the commercial rate in the district. If a reduction in the bill rate were to be made to a point where it would interfere with the normal distribution of acceptances, he stated he would be opposed to it, but he thought it would be a wise move if it were simply a step to conform to the market and take on as outright holdings such bills as are now carried under repurchase agreements.

"Governor Seay expressed the opinion that the System should maintain the present situation rather than ease further. He said he thought the System should proceed cautiously in order to see that hardening of rates does not result from the spring demands and to prevent any hardening it might be well to act through the acceptance rate or possibly by small

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purchases of Government securities, although he would dislike very much to see the latter done.

"Governor Calkins expressed the opinion that the objective of the System's policy, as he understood it, seems to have been achieved and there is no occasion to go farther at the present time. He stated that if it should later appear desirable to bring about a condition of greater ease it should be done through some slight variation in the bill rate, as the System can then reverse itself without embarrassment, which it cannot do as regards the discount rate."

Preliminary memorandum from Harrison. During his statement Governor Harrison presented the following preliminary memorandum for the consideration of the Committee:

"At the last meeting of the Open Market Investment Committee on November 12 the resolutions adopted included the following statement of policy:

"'Since the meeting of the Committee on September 24, the credit situation has changed abruptly. There has been a severe liquidation of credit against securities under circumstances which constitute a serious threat to business stability at a time when there were already indications of a business recession. This seems clearly to indicate the need of having the Federal Reserve System do all within its power towards assuring the ready availability of money for business, at reasonable rates.

"'In view of these circumstances and for the purpose of avoiding any increase, and if possible facilitating some reduction, in the total volume of member bank discounts, the Committee believes that the System should be prepared to increase the open market holdings of the Federal Reserve banks through the purchase of bills if they can be acquired in

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sufficient amounts without interfering with their present desirable distribution, and if not, through the purchase of Government securities.'

"The committee recommended that to accomplish these purposes it be granted authority to purchase not to exceed $200,000,000 of Government securities.

"The Federal Reserve Board approved this program on November 25, and it was also approved by a majority vote of the Governors' Conference on December 11. Since November 27 purchases have been made under this authority totaling $155,000,000, bringing the holdings in the open market account up to $277,000,000 and the total security holdings of the System up to $477,000,000. The purchases were all made prior to the first of the year.

"Results Accomplished

"The purchase of securities appears to have accomplished a considerable part of the results which the committee hoped for. During December, when there is ordinarily a considerable increase in rediscounts, no increase took place, but on the contrary there was some decrease, facilitated by the retirement of credit called into use in connection with the stock market break. After the first of the year the seasonal retirement of currency and credit, together with a continued liquidation of security loans enabled the member banks to decrease their indebtedness still further, and the System's total discounts for the past two weeks have been just under $450,000,000. This is an amount of discounts conducive to a comfortable money position. The accompanying chart indicates that with this level of discounts, commercial paper rates might be expected to range from 4 to 4 1/2 per cent, other things being equal. The relationship between discounts

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and commercial paper rates has been remarkably close in the past, though rates are frequently a little sluggish in responding to a decrease in discounts. The second chart indicates also that with something like the present amount of discounts the volume of bank credit usually tends to increase at a rate consistent with the usual rate of growth of the country's business.

"While discounts have been reduced, it cannot yet be said that money is readily available for business at such reasonable rates as would encourage business enterprise. Commercial paper rates in the open market are still 4 3/4 to 5 per cent, and the rate which the banks are charging customers on prime commercial paper in New York City is still 5 1/4 and 5 1/2 per cent. These relatively high interest rates reflect in part the slowness of rates to adjust themselves to a changed monetary condition, in part great caution and conservatism of the banks, and in part the discount rates of the Federal Reserve System which are higher than has usually been the case with the present volume of rediscounts. Mortgage money in particular is not yet freely available and the bond market still has limited absorptive power.

"Volume of Credit

"The total volume of bank credit has declined by nearly 2 billion dollars since the first of November, and the loans and investments of the reporting member banks are now less than one per cent higher than at this time in 1929, a year to year increase which is less than the usual growth of credit required by the country's business.

"Condition of Business

"The recession in business activity which began in the late summer became more precipitate in the last two months of the year,

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and the December figures showed a decline greater than had occurred in any year since 1924. The meager figures so far available for January show a seasonal recovery from the low point in December in the automobile, steel, and a number of other lines of business, but it is too early to judge whether the recovery has been more than the usual seasonal gain. Commodity prices have continued to be weak and in the United States show a decline of 2.6 per cent from a year ago. World prices as judged by the British index, show a decline of 4 per cent.

"The Seasonal Expectation

"Ordinarily the spring increase in business gives rise to an increase in the demand for Federal reserve credit of something in the neighborhood of $90,000,000 from the lowest point at the end of January to the highest point early in April. The bill holdings of the System usually decline in this period because of a seasonal decline in the volume of bills outstanding, and as a consequence there is usually some increase in the discounts of the System and some firming in money conditions.

"Condition of the Bill Market

"The volume of bills outstanding increased to a new high figure of $1,700,000,000 at the end of December. The bill holdings of the Federal Reserve System, however, amounting to $392,000,000, constituted a much smaller proportion of the total bills outstanding than usual. This was due primarily to an extraordinary demand for liquid short term investments for the employment of funds withdrawn from the security markets in November. This demand was so considerable that during November and December the bill holdings of the Reserve System showed nothing like the usual seasonal increase, nor would it have been possible to acquire any considerable

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volume of bills during the period without driving rates to very low levels.

"Near the end of the year, however, funds began to be distributed more normally, and a considerable volume of bills was thrown into the market, with the consequence that dealers portfolios became congested and bill rates were increased by 1/8 of one per cent. This situation is gradually being corrected as the volume of bills outstanding is slightly reduced and distribution is gradually taking place. Under these circumstances it seems possible, however, that the spring liquidation of the System's portfolio may be somewhat slower than usual, dependent somewhat upon the System's buying rate for bills.

"Foreign Exchanges and Gold Movement

"During November and December when considerable amounts of foreign funds were being withdrawn from New York the foreign exchanges were very strong and more than 100 million dollars of gold was exported. In January this situation has become adjusted, interest rates have declined in Europe, foreign exchanges have weakened, and gold exports have ceased. Most of the exchanges are so far below the export points that considerable recovery would be necessary before gold moved. In the next two weeks more than $15,000,000 of gold is expected to arrive from Japan and South America."

Governor Harrison also stated that "the present minimum bill rate of the New York bank is 4% and that the directors feel they should have some leeway to adjust their effective rate downward as well as upward. He stated that the immediate effect of a reduction of 1/8 of 1% in the buying rate would be to convert some of the bills held under repurchase agreement into outright holdings and avoid pressure on the money market incident to

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a transfer of Federal Reserve credit from bills into rediscounts. He pointed out that unless the seasonal reduction in bills is minimized the System's discounts may advance in an amount totaling the bill reduction and the spring demands for additional credit."

Recommendation of Conference and discussion with Board. After considerable discussion regarding the present procedure in the establishment of bill rates, the members of the Board withdrew and the Conference drew up the following recommendation which was presented at the joint meeting of the Conference with the Board on January 29:

"The Open Market Committee, including informally the Governors or Deputy Governors from eleven of the Federal Reserve banks, has considered the report of the secretary of the Open Market Committee, the preliminary memorandum, and the data submitted by the Federal Reserve Board and by representatives of the several reserve banks, and has reached the following conclusions upon the matters therein referred to and upon the specific questions asked by the Federal Reserve Board.

"The facts appear to be:

1. The panicky feeling has subsided.
2. A business recession has taken place, the extent or duration of which is not yet possible to determine.
3. Money has been made available to commerce and industry at more reasonable rates.
4. Liquidation is progressing in an orderly fashion.
5. Rediscounts have been reduced to under $450,000,000.
6. However, there is a large volume of security loans in member banks which they are anxious to get reduced.
7. Liquidation has been slower in country banks than in the city banks.

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"Under these circumstances it is the judgment of the Committee that no open market operations in Government securities are necessary at this time either to halt or to expedite the present trend of credit.

"The Committee believes, however, that it would have an unfortunate effect upon business if the demand for additional credit for spring business, concurrently with the running off of the present bill portfolio of the System should result in a hardening of rates.

"It therefore recommends that the minimum buying rate for bills, fixed by the Federal Reserve Board, be reduced so that the Federal Reserve banks may have such flexibility in their bill operations that the present portfolio may be not only maintained but may if necessary be increased to such extent as to avoid the hardening of rates which might result from a a seasonal demand for additional reserve credit."

In presenting the recommendation, Governor Norris made the following statement:

"There were differences of opinion regarding the matter before the conference, the representatives of two of the banks feeling it is desirable to have a distinct easing of rates and that it would be advisable for the System to do anything likely to have that effect. The majority opinion was that what has already been done has set in motion a trend which should result in lower rates. Between a reduction of discounts and large purchases of securities, and a reduction of rates to business there is always a lag and that lag is likely to be greater at this time because the appetite of the bankers has been whetted during recent months and they are slower about coming down. There is every reason to anticipate that the reduction will occur so that it is believed the current is set in the

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direction of easier rates.

"We (speaking here for the majority opinion) feel we should not interfere in that movement either in the direction of halting it or attempting to expedite it, unless the situation clearly calls for some action and we cannot see that it does. On the contrary, we feel it is better that the situation should clear up further, that the extent and duration of this recession should be more ascertainable than at the present moment, and that it is inexpedient for us to exhaust at the present time any part of our ammunition in an attempt to stimulate business when it is perhaps on a downward curve and we had better wait until we feel that we have reached a stable basis where the administration of some stimulant may have a distinct and good effect rather than to exhaust our ammunition now in what may be perhaps a vain attempt to stem an inevitable recession. Therefore, the recommendation is made that we see no necessity for open market operations in Government securities at this time either to halt or to expedite the present trend of credit. The majority of the Committee is not in favor of any radical reduction in the bill rate or radical buying of bills which would create an artificial ease or necessitate a reduction in the discount rate. If that reduction comes about naturally from further liquidation or reduced demand, all well and good, but we do not feel that we should make any active effort to bring that about. Therefore, we have limited this recommendation to the maintenance of the present portfolio and such increase as may be necessary, not to avoid some increase in discounts, but if any conditions likely to bring about a hardening of rates arise, then we believe that hardening should be prevented by increasing the bill portfolio.

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"We do not believe that in the present temper of the public there is any danger of a revival of active speculation in the market.

"We do not favor any such operations in bills as will necessitate a reduction in the discount rate, but if it should come as the result of the general trend of events, that is a matter between the bank and the Board. The seasonal demand during the spring may not be as large as usual and may not reach more than $75,000,000 and that probably could be taken care of by an increase in rediscounts without hardening of rates. A greater demand might have a hardening effect which should be prevented by the purchase of bills, but we distinctly feel that no operation in bills should be undertaken for the purpose of either forcing or facilitating a reduction in discount rates by any bank."

During the discussion which followed regarding the advisability of a reduction in the effective buying rates of bills and the probable results of such a reduction, the following statements were made:

"Governor Harrison in further explanation, stated that the Conference felt the System should let the present downward trend of rates run along and do nothing which would artificially either stop the decline or force it down more rapidly. We feel, he stated, it would be desirable if possible, without any artificial action, to permit continuance of the present trend. The Committee hopes the New York Bank will not go out and buy so many bills that it will force a reduction in the discount rate, but the Committee does not express any opinion on a reduction in the rate, which may be brought about by the normal trend.

"Governor Norris stated the feeling was that any temporary peak in the downward trend should be levelled off through the bill market.

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"Governor Martin stated that he cast the only vote against the report because he was fearful of results which might come from any artificial action which, in his opinion, would be justified only in an emergency. He stated he would regret to artificially accentuate easy money at this particular time as he does not believe it is necessary, and feels that if the recommendation of the Committee should be followed out and a reduction made in the bill rate it would mean as a matter of course, based on experience, a later reduction in the rediscount rate."

Communications on Open Market Operations and Discount Rates, late January -- late March 1930

Letter from New York Bank to Board, January 29. The following letter was received from Deputy Governor Case under date of January 29:

"The total holdings of government securities in the Open Market Investment Account remain unchanged at $277,500,000, the amount reported in my letter of January 22, 1930. The outright holdings of this bank are also unchanged with no sales contracts against government securities.

* * *"

Board disapproval of reduction of New York Bank discount and buying rates. At the meeting of the Board on January 30 the Governor stated "that the directors of the Federal Reserve Bank of New York meet today and he, therefore, requested that the Board consider, in the light of the report submitted yesterday by the Open Market Policy Conference, the request of the New York Bank that the Board reduce to 3-1/2 per cent the minimum buying rate established for the purchase of bankers acceptances by the bank. He stated that if the minimum rate is reduced the bank will undoubtedly establish an effective rate of 3-7/8 per cent today which, in his opinion, will result in easing the credit situation, to which he

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personally is not opposed. He stated, however, that his impression from the discussions yesterday is that the recommendation of the Open Market Conference was approved by the Governors on different premises--two definitely being in favor of an easing program and the others in favor of preventing any hardening due to a run off in the System bill portfolio or the increased spring demands for credit.

"The Chairman stated that he thought the System's position should be to keep credit from hardening and that it would be a good thing to take care of the spring demand by some easing policy."

After some discussion it was voted that the Federal Reserve Bank of New York be advised that the Board had taken under review its request for the establishment of a minimum buying rate of 3-1/2 per cent for purchases of acceptances and had determined the minimum buying rate to be 3-3/4 per cent.

At a special meeting of the Board on the afternoon of January 30, Governor Young reported that he had been advised that the directors of the Federal Reserve Bank of New York had voted to establish a discount rate of 4 per cent and had approved the establishment of an effective buying rate of 3-7/8 per cent on bills up to 45 days, which action, he stated, was unanimous, based on the belief of the New York directors that a rate reduction would be an aid to the business situation, and was taken by them following a report by Dr. Burgess of the deliberations of the Open Market Policy Conference. A motion to approve the discount rate established by the New York directors was lost, some of the members of the Board expressing the opinion that a reduction would be a little premature.

Letter from New York Bank to Board, February 5. Under date of February 5 Mr. Case wrote the Board as follows:

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"Since my last letter to you, under date of January 29, 1930, there have been no transactions in the Open Market Investment Account, the holdings of government securities remaining unchanged at $277,500,000. The holdings of this bank have also remained at the same figure as reported last week, with sales contracts showing a small increase of $1,140,000

* * *"

At the meeting on February 6, following receipt of advice from the Federal Reserve Bank of New York that its Board of Directors had again voted to establish a discount rate of 4 per cent, and report by the Governor that there was quite a decided feeling on the part of the directors for an adjustment in the rate at the Boston and Chicago banks, there was further discussion as to the advisability of a reduction in the discount rate, some of the members still feeling that conditions were not opportune at the moment for a reduction. It was voted, however, to approve a discount rate of 4 per cent for the New York Bank, effective February 7.

(Secretary's note: At the meeting on February 6 the Board also approved a rediscount rate of 4-1/2% on all classes of paper of all maturities for the Federal Reserve Bank of Richmond, effective February 7.)

On February 7 the Board considered a second request from the Federal Reserve Bank of New York, for a reduction to 3-1/2 per cent in the minimum buying rate for the purchase of bankers' acceptances at that bank, but action on the matter was deferred.

(Secretary's note: On February 7 the Board approved a discount rate of 4% on all classes of paper of all maturities, for the Federal Reserve Bank of Chicago, and a rate of 4-1/2% for the Federal Reserve Banks of Cleveland, Minneapolis, and Dallas, effective February 8; and on February 10th a rate of 4-1/2% on all classes of paper was approved for the Federal Reserve Bank of St. Louis, effective February 11.)

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On February 11 the Federal Reserve Bank of New York established the following schedule of effective buying rates on acceptances:

1 to 45 days	3-3/4%
46 to 120 days	3-7/8%
121 to 180 days	4-1/4%
Repurchase	3-7/8%

At the meeting of the Board on February 12 it was voted to reduce to 3-1/2% the minimum buying rate for purchase of bankers' acceptances at the New York Bank.

(Secretary's note: On February 12 the Board approved a rediscount rate of 4% on all classes of paper of all maturities for the Federal Reserve Bank of Boston, effective February 13.)

Letters from New York Bank to Board, February 13-26. The Deputy Governor of the Federal Reserve Bank of New York wrote the Board under date of February 13 as follows:

"There have been no changes in the total holdings of Government securities in the Open Market Investment Account since my letter of February 6 to you, the amount remaining at $277,500,000. Our individual holdings of Governments also remained the same, and advances under sales contracts, which are still at a low level, total $1,550,000, as against $1,140,000 last week.

* * *"

(Secretary's note: On February 14 the Board approved a rediscount rate of 4% on all classes of paper of all maturities for the Federal Reserve Bank of Kansas City, effective February 15.)

Under date of February 19 the following letter was received from Deputy Governor Case:

"The only change that has taken place in the Open Market Investment Account since my letter to you under date of February 13, 1930, is the

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taking over temporarily from the Federal Reserve Bank of Dallas of $5,000,000 of its participation in government securities and distributing it among those other Federal Reserve banks which cared to participate. All of the banks, with the exception of Atlanta, St. Louis and Kansas City, participated. This transaction has, of course, no effect on the total holdings in the account, the amount remaining at $277,500,000. Our individual holdings of government securities are the same as a week ago, with sales contracts also remaining at a low level, namely $2,900,000.

* * *"

On February 24 the Federal Reserve Bank of New York established the following schedule of effective buying rates on acceptances:

1 to 90 days	3-3/4%
91 to 120 days	3-7/8%
121 to 180 days	4-1/4%
Repurchase	3-7/8%

Mr. Case wrote the Board as follows on February 26:

"The total par value of government securities in the Open Market Investment Account remains precisely the same as when I wrote you on February 19, 1930. There has, however, been some change in maturities. Our individual holdings of government securities remain the same, with sales contracts at $4,750,000 - an increase of $1,850,000. . . ."

Board consideration of desirability of open market purchases, March 5. At the meeting of the Board on March 5 discussion was had regarding the various factors entering into the business and credit situation and the extent and possible duration of the business recession. The desirability of the Board's taking some action to ease the situation either through the Government securities market or a reduction in the discount rate, and the possible effects of such action, were thoroughly reviewed and

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the Governor was instructed to advise the Chairman of the New York Bank that the Board had given very careful consideration to the business and credit situation generally; that it realized that conditions were not good and believed it was an opportune time for the System to take some action; that it would, perhaps, be advisable to have a meeting for the consideration of open market policy, possibly on Monday, March 24, after the tax payment period; that the Board felt, however, that during the interim no harm could be done and some good could be accomplished by an increase in the Government security portfolio of the Federal Reserve Bank of New York, purchases being made gradually to not to exceed $50,000,000 during the two weeks or so between March 5 and the date of the meeting.

Letter from New York Bank to Board, March 5. Mr. Case wrote as follows under date of March 5:

"While there have been some changes in the maturities of the issues held, the total par value of government securities in the Open Market Investment Account remains the same as it was when I wrote you on February 26, 1930, namely $277,500,000. The investment account of this bank will show an increase of $8,000,000 over a week ago, occasioned by the temporary purchase of some short-term governments which will be offset within a few days by the taking over by the Treasury of a like amount. . . ."

On March 5 the Federal Reserve Bank of New York made a further reduction in its buying rates on bills and on March 6 established the following schedule:

1 to 120 days	3-1/2%
121 to 180 days	3-3/4%
Repurchase	3-1/2%

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Purchases of securities in mid-March. At the meeting on March 10, during a discussion of a request from the Federal Reserve Bank of New York for a reduction in the minimum buying rate at that bank to 3%, the Governor presented a letter from the Chairman of the bank dated March 7, advising that "at the meeting on March 6th consideration was given to the Board's letter of March 5th, suggesting the purchase of not to exceed $50,000,000 of Government securities pending a meeting of the Open Market Committee suggested for March 24th; the letter advising that the directors present at the meeting and the officers of the bank were unanimously in favor of making such purchases and the directors authorized the officers to proceed, in accordance with which action purchases of $25,000,000 have been made from private sources and further purchases will probably be made for delivery during the statement period beginning March 13th." At the conclusion of the discussion it was voted to establish a minimum buying rate of 3 per cent for the purchase of acceptances at the New York Bank.

On March 11 the New York Bank made a further reduction in its schedule of effective buying rates of 1/4% on maturities up to 15 days and on repurchase agreements and 1/8% on other maturities.

Under date of March 12 the Chairman of the New York Bank advised the Board as follows:

"The increase of $26,750,000 in the holdings of government securities in the Open Market Investment Account since my last letter dated March 5, 1930, is in line with the decision arrived at last week to make additional purchases up to not exceeding $50,000,000, for the time being. The foregoing indicates that practically one-half of the $50,000,000 has

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already been purchased, and the balance contracted for, for delivery later this week. The securities already purchased have been placed in the Open Market Investment Account and allotted to such of the banks as desired to participate. . . ."

Reduction of New York Bank discount rate to 3-1/2 per cent. At the meeting of the Board on March 13 the Governor reported advice that the New York directors had unanimously voted to establish a rediscount rate of 3-1/2%, which rate was approved effective March 14.

(Secretary's note: On March 14 the Board approved a rediscount rate of 4% on all classes of paper for the Federal Reserve Bank of Cleveland, effective March 15.)

This reduction was followed on March 14, 17 and 19 by further reductions in the effective buying rates on bills at the New York Bank, and on March 20 the following schedule was established:

1 to 120 days	3%
121 to 180 days	3-1/4%
Repurchase	3%

Under date of March 17 Mr. Case wrote the Board as follows:

"In connection with our discussions last week relative to the change in our discount rate one point was made both by our officers and our directors which I should like to pass on to you.

"We all realize that in reducing our rate to 3 1/2 per cent and accompanying this rate reduction by making funds so freely available through open market operations in the interest of business, we are embarking on a course which involves certain dangers. In the past reductions below four per cent and large open market purchases have at times been followed by outbursts of excessive speculation and too rapid increases in the volume of credit. We here believe that the present business and credit

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situation justifies running some risk in the hope that business may be benefited, and there appears just now to be less risk than usual from excessive speculation.

"We have the belief, however, that even now as we take this step we should be considering the policy to be pursued if too rapid expansion of credit results. One method which has been discussed is the general practice of the European central banks of raising their rates by a full per cent rather than by one-half per cent steps. We may find that this practice based upon long experience in many countries, would be effective here. It at least appears to warrant careful consideration.

"On one view we are quite unanimous: that if necessary the System should be as prompt to take vigorous and definite measures to prevent excessive expansion of credit as it has been during the past five months to take steps designed to facilitate the movement toward easy credit conditions in the interest of business. The experience of the past few months should insure wide public support for the System in acting to prevent as far as its powers go the recurrence of the events during this period.

"I am passing on to you these views, not with the thought that any of us can in any way make advance commitments since every situation is in some sense unique, but simply to keep you informed as to our discussions. The suggestion is perhaps one that you would like to discuss with your associates."

Board discussion of buying rate on acceptances. At the meeting of the Board on March 19 a general discussion of the credit situation developed during which it was the consensus of opinion that there is danger that the present policy of the Federal Reserve System will result in too

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much ease in the money market. The members generallyexpressed the opinion that no further reduction should be approved in the minimum buying rate on bankers' acceptances, which is now at 3% and down to which effective rates have been reduced.

At the meeting on March 20 the Governor reported a telephone conversation with Chairman Case of the Federal Reserve Bank of New York, who expressed "the opinion that the present very easy money situation is only temporary as New York City banks are $60,000,000 short in their actual reserves and, in addition, the Government overdraft of $44,000,000 is to be taken care of in the next two days. He stated that the New York bank is not attempting to follow the bill rate in further reductions and is losing some bills. Mr. Case expressed the opinion that no action should be taken during the next few days and Governor Young stated that upon inquiry he advised Mr. Case that, in his opinion, it is proper to do nothing under the circumstances. He stated, however, that dealers' rates are now below the Federal Reserve bank rate for purchases of acceptances and that directors may possibly request a lower minimum buying rate."

(Secretary's note: Effective March 20, the Federal Reserve Board approved a rediscount rate of 4% on all classes of paper for the Federal Reserve Bank of Philadelphia, and on that date a similar rate was approved for the Federal Reserve Bank of San Francisco, effective March 21.)

On March 19 total bills and securities held by the System amounted to $961,000,000 consisting principally of Government securities in the amount of $561,000,000, acceptances in the amount of $185,000,000 and discounted bills in the amount of $206,000,000.

Letter from New York Bank to Board, March 20. The following letter was received from Mr. Case under date of March 20:

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"There has been no change in the holdings of government securities in the Open Market Investment Account since my letter of March 12, 1930 aside from the completion of the delivery and apportionment to other participating Federal Reserve banks of the balance of the recent purchases. These purchases reached a total of $49,750,000. . . ."

Meeting of Governors on March 24, and Adoption of Procedure for Open Market Policy Conference.

Preliminary memorandum of Secretary. The meeting of representatives of all Federal Reserve banks, called by the Governor of the Board on March 12, to consider open market policies, was held in Washington with the Federal Reserve Board on March 24, at which the following preliminary memorandum, prepared by the Secretary of the Open Market Investment Committee, was considered:

"The most important development in the credit situation since the last meeting of the Open Market Investment Committee on January 28 and 29, is that business conditions have not improved as rapidly as had been hoped at that time. The January figures for business and trade were slightly better than those for December, and February in turn was very slightly better than January. But the improvement in both months was so small as to leave the total volume of production and trade below the corresponding period in any recent year. The recession appears to have been more severe than in either 1924 or 1927. Accompanying the business recession unemployment has become serious, probably more so than in any year since 1921. In both 1924 and 1927 business was supported in recession by a continued substantial volume of building construction, but in the past few months building has continued at a low ebb without any indication yet of substantial recovery.

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"MONEY RATES

"The trend toward easier money conditions which was observed at the time of the last meeting has continued even more rapidly than was then anticipated, partly due to a reduced demand for credit and currency for business, but more largely to a heavy flow of gold imports, mostly from Japan and Brazil, which has totaled about $100,000,000 in the period. In the past two weeks Treasury operations in connection with the March 15 tax period have been an additional important factor toward ease. For ten days before the tax period the Treasury balance at the Reserve banks was drawn down to exceptionally low figures, thus putting funds into the market, and at the time of the tax period the excess of funds in the market as a result of large Treasury disbursements covered by an overdraft could not be absorbed in the usual way by a reduction in member bank indebtedness. And as a consequence there was a considerable volume of free funds available in the market which tended to depress money rates rapidly. On March 19 total bills discounted for the Federal Reserve System were $206,000,000 as compared with $407,000,000 on January 29. The decline in money rates in this period is indicated in the accompanying table:

	January 29, 1930		March 21, 1930
Rates for Commercial paper	4 3/4 - 5		4
90 day bills (offered)	4		2 1/2
Call money (renewal)	4 1/2		3
Time money	4 1/2 (nominal)		3 3/4
Bank rates to customers in New York	Jan. 15 5.41	Feb. 15 5.09	Mar. 15 4.93

"On March 18 the New York Clearing House reduced deposit rates by 1/2 of one per cent except for the rate on bank deposits which remained unchanged.

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"In the early part of this period rates tended to move rather sluggishly and to reflect rather slowly the fundamental changes in the credit position, but during the latter part of the period the decline became precipitous and during the tax period even more rapid than the fundamental credit situation appeared to justify.

"BOND AND STOCK MARKETS

"The effects of easy money and freely available credit have been in the first place to stimulate a vigorous recovery in the bond market. Bond prices have risen to the highest points in more than a year, and the bond market has been opened to new issues; so that bond financing is now in substantial volume and well absorbed. This is of particular importance with relation to the business situation because it makes possible the carrying forward of many business undertakings which had been postponed because of the condition of the bond market.

"The stock market remained irregular until the past week when it made a considerable recovery with more active trading than for some time. Brokers loans as reported to the Federal Reserve banks have risen $500,000,000 since the last meeting of the committee. This probably represents in part an increase in loans by banks to replace loans withdrawn because of low rates by lenders whose operations do not appear in the Federal reserve reports, but it reflected in part also the recent recovery in stock prices.

"BANK CREDIT

"The total volume of bank credit continued to decline until the end of February but since that time has risen about $300,000,000 and is now about as large as at the middle of January. The increase has been mostly in security loans, as so-called commercial loans have remained close to the

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lowest point of the year. In the week ended March 19 bank investments showed their first sizable increase, part of which resulted from subscription to the new Treasury issue.

"FEDERAL RESERVE POSITION

"In the face of continued business depression and a rapid downward movement of money rates changes in Federal Reserve bank discount rates have taken place more rapidly than was anticipated at the time of the last meeting. Since that time two changes have been made in the rates of the New York and Cleveland banks and one change in the cases of Boston, Philadelphia, Richmond, Chicago, St. Louis, Minneapolis, Kansas City and Dallas.

"During the early part of the period the Reserve banks were successful in pursuing the policy adopted at the January meeting of holding their bill portfolio at a level close to the level of the latter part of January, which was between $275,000,000 and $300,000,000. Early in March, however, it became clear that, with a decline in the total volume of bills in the market, and an increasing demand for bills from banks and others seeking short term investments, it would be impossible to maintain the bill portfolio. In these circumstances and in view of the unfavorable business situation the New York reserve bank, after consultation with the Federal Reserve Board, undertook to purchase $50,000,000 of Government securities. All reserve banks were advised of this operation and offered participations in the purchase, and eight of the reserve banks took participations.

"The following table compares system figures for March 19 with those for January 22. March 19 figures are distorted somewhat by the Treasury overdraft. More normal figures for this week will show an increase in bills and discounts, replacing the overdraft.

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(In millions of dollars)

	January 22	March 19
Bills discounted	433	206
Bills bought	298	185
U. S. securities	477	561*
Other securities	15	9
Total bills and securities	1,223	961

"*Includes $29,000,000 of the $44,000,000 special one-day Treasury certificate of indebtedness to cover overdraft on that date; a $15,000,000 participation in the certificate was held by a New York member bank."

Discussion of Governors. At the outset of the general discussion Governor Young referred "to the purchase of $50,000,000 of Government securities made by the New York Bank, with the approval of the Board, during the past two weeks as an offset to a rapid runoff in the System's bill portfolio which it was not thought wise to deal with by a reduction in the bill rate at the time the purchase was authorized.

"Governor Norris questioned the advisability of the purchase of Government securities in a money market already easy as a result of the normal trend.

"Governor Young then referred to the reductions in discount and bill rates which have been made since the last open market meeting, in which he stated the Federal Reserve System preceded the market. He advised the Conference that the Board has before it a request for a further reduction in the minimum buying rate from 3% to 2 1/2% and that the question before the Conference would seem to be whether the System should continue efforts toward further ease, whether the policy of the System should be to keep the existing situation unchanged or whether it is advisable to reverse the present policy by allowing the market to take bills as they mature and possibly some Government securities.

"Mr. Case pointed out that of the $185,000,000 bill portfolio of the System, $100,000,000 mature within the next thirty days. The discussion

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brought out that in the absence of action by the System, these bill maturities would exert a tightening influence only in the event they were not offset by gold imports, a reduction of currency circulation, security liquidation or a further recession in business with lessened credit demand.

"Mr. Miller pointed out that the present very easy money is largely due to the fact that while the System has been operating in the open market, its operations have been augmented by gold imports and reduced currency requirements incident to a slowing down of the business demand for credit.

"A general discussion then ensued during which it appeared to be the consensus of opinion that for the present, at least, the Federal Reserve System has proceeded far enough in the direction of easy credit as a stimulus to business and that for the time being, unless some unforeseen development occurs, there should be no increase in the Government security or bill portfolios."

During the afternoon the representatives of the Federal Reserve banks in conference adopted the following memorandum, which was presented at a meeting with the Board later in the afternoon:

"The Open Market Committee, including informally representatives of all the reserve banks, has considered the information submitted in the Chairman's preliminary memorandum, by the Federal Reserve Board, and by representatives of the several banks.

"While Treasury tax period operations have distorted the near-time view of the money situation, it is clear that since the meeting of the Committee on January 28 and 29 money conditions have eased substantially and money has become more freely available and the ease has been extended from

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the short time to the long time money market.

"The Committee believes the steps already taken by the Federal Reserve System in easing the money market through open market operations have gone as far in providing the stimulus of easy money for business use as seems desirable at this time. The Committee believes that at present there is no occasion for further purchases of Government securities.

"In the interest of flexibility and preparedness for the unexpected, the Committee favors a reduction in the minimum buying rate on bills, fixed by the Reserve Board, to 2-1/2%. It is the sense of the meeting, however, that in the absence of some developments that cannot now be anticipated, bills should not be bought below 3%."

Revision of proposed provisions for Open Market Policy Conference. Following a brief discussion of the memorandum, the question of open market procedure was taken up and a committee, consisting of all representatives of the Federal Reserve banks present and the Governor of the Board was appointed for the purpose of preparing, in the light of replies received from the banks to the Board's letter of January 23, a revision of the proposed open market procedure to be submitted to the Conference and later to the Federal Reserve banks.

This committee submitted the following report at the joint meeting of the representatives of the Federal Reserve banks with the Board on March 25:

"The Committee appointed at the meeting of the Federal Reserve Board with the representatives of the twelve Federal reserve banks yesterday, met at the Carlton Hotel last evening and adopted the attached revised draft of a proposed open market procedure.

"It was also voted to be the sense of the representatives of the

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Federal reserve banks present at the meeting that the representative of the Federal Reserve Bank of New York be elected Chairman of the Conference for one year; that the Executive Committee provided for in the proposed procedure should consist of the Chairman and the representatives of the Federal Reserve Banks of Boston, Cleveland, Philadelphia and Chicago for one year; also, that the Conference adopt the principle of reasonable rotation in the membershop of the Executive Committee after the first year.

"(1) The Open Market Investment Committee, as at present constituted, to be discontinued and a new committee, to be known as the Open Market Policy Conference, to be set up in its place.

"(2) The Open Market Policy Conference to consist of a representative from each Federal Reserve Bank, designated by the Board of Directors of the bank.

"(3) The Conference to meet with the Federal Reserve Board upon the call of the Governor of the Federal Reserve Board or the Chairman of the Executive Committee, after consultation with the Governor of the Federal Reserve Board.

"(4) The function of the Open Market Policy Conference to be to consider, develop and recommend policies and plans with regard to open market operations.

"(5) The time, character and volume of purchases and sales to be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

"(6) The conclusions and/or recommendations of the Open Market Policy Conference, when approved by the Federal Reserve Board, to be submitted to each Federal reserve bank for determination as to whether it will participate in any purchases or sales if recommended: any Federal reserve

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bank dissenting from the proposed policy to be expected to acquaint the Federal Reserve Board and the Chairman of the Executive Committee with the reasons for its dissent.

"(7) A Committee of five to be selected from and by the members of the Conference for a term of one year, with full power to act in the execution of the policies adopted by the Open Market Policy Conference and approved by the Federal Reserve Board, and to hold meetings with the Board as frequently as may be desirable.

"(8) Each Federal reserve bank to have the right, at its option, to retire as a member of the Open Market Policy Conference; no member of the Conference to be considered as waiving any of its rights under the Federal Reserve Act with respect to the purchase and sale of securities, but each member of the Conference will respect its Conference obligations."

The following memorandum, left with the Board by Governor Young, who was appearing at the time before the House Banking and Currency Committee, was also read:

"The Committee that was suggested yesterday afternoon to draft an open market procedure for the System met last evening at the Carlton Hotel and after much discussion and many compromises, the attached draft was finally approved unanimously by the committee. I believe that it meets many of the criticisms that were made by the various boards of directors, but not all. Nevertheless, I do believe that after the directors of the various reserve banks learn that their representatives have agreed to it unanimously that they will no doubt adopt it.

"The eighth section was included on my suggestion for certain specific reasons, which are as follows:

"1. No board of directors would care to treat its responsibilities

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and duties under law in such a light manner as to assign those duties and responsibilities under all occasions and conditions, and I believe it advisable under the arrangement to specifically mention the rights that they have under the law.

"2. From a practical standpoint, however, I do not believe that any Federal Reserve bank would withdraw from representation in the Open Market Policy Conference except with great reluctance, even though their board of directors may frequently dissent from the policy.

"3. If one or several of the smaller banks should elect to withdraw, I still believe that the committee would be in a position to function. If, however, one or several of the larger Federal reserve banks should elect to withdraw, the probabilities are that the committee plan would have to be abandoned, and open market operations would have to be handled by regulation. Regardless of what has happened in the past, however, I believe this to be a very remote possibility."

The revised procedure submitted by the Committee was thoroughly discussed and finally amended to read as follows:

"(1) The Open Market Investment Committee, as at present constituted, is hereby discontinued and a new committee, voluntary in character, to be known as the Open Market Policy Conference, is set up in its place.

"(2) The Open Market Policy Conference shall consist of a representative from each Federal Reserve Bank, designated by the Board of Directors of the bank.

"(3) The Conference shall meet with the Federal Reserve Board upon the call of the Governor of the Federal Reserve Board or the Chairman of the Executive Committee, after consultation with the Governor of the Federal Reserve Board.

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"(4) The function of the Open Market Policy Conference shall be to consider, develop and recommend policies and plans with regard to open market operations.

"(5) The time, character and volume of purchases and sales shall be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

"(6) The conclusions and/or recommendations of the Open Market Policy Conference, when approved by the Federal Reserve Board, shall be submitted to each Federal reserve bank for determination as to whether it will participate in any purchases or sales recommended; any Federal reserve bank dissenting from the proposed policy shall be expected to acquaint the Federal Reserve Board and the Chairman of the Executive Committee with the reasons for its dissent.

"(7) An Executive Committee of five shall be selected from and by the members of the Conference for a term of one year, with full power to act in the execution of the policies adopted by the Open Market Policy Conference and approved by the Federal Reserve Board, and to hold meetings with the Board as frequently as may be desirable.

"(8) Each Federal Reserve bank participating in the Open Market Policy Conference shall be considered as waiving none of its rights under the Federal Reserve Act; each Federal Reserve Bank shall have the right at its option to retire as a member of the Open Market Policy Conference, but each bank while a member of the Conference shall respect its Conference obligations."

Adoption of procedure by Board. At the meeting on March 26 the Governor stated that he had talked over the telephone with Deputy Governor Case of the New York bank "who advised him that the directors at their

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meeting tomorrow will probably take no action with regard to the rates in effect at that bank. It was, therefore, agreed to again defer action on the recommendations of the Open Market Policy Conference and the requests of the New York bank for reduction in its minimum buying rate."

Discussion was also had regarding the proposed open market procedure as revised at the meeting on the 24th and following a vote to reconsider the action of the Board on January 16 in adopting the procedure submitted to the banks with the Board's letter of January 23, it was voted to adopt the revised procedure, same to become effective when ratified by the Board of Directors of the twelve Federal Reserve banks.

Current letter from New York Bank to Board, March 26. On March 26 Mr. Case wrote the Board as follows:

"There has been no change in the total amount of holdings of government securities in the Open Market Investment Account since my letter dated March 20, 1930, the amount remaining unchanged at $327,300,000.

"As to our own investment account: with the exception of the reduction of $29,000,000 from last week's figures, the amount of the special one-day certificate of indebtedness to cover the government overdraft, the total remains unchanged at $112,000,000. Sales contracts are still at a low figure, being $2,460,000 at the close of business tonight. . . . "

Letter from Board to Reserve Banks on organization of Open Market Policy Conference. At the meeting on March 31 the following letter, submitting to the Federal Reserve banks the proposed open market procedure was ordered transmitted:

"Under date of January 23, 1930, a letter was addressed to each Federal Reserve bank advising of adoption by the Board of a revision of the open market procedure made effective in April 1923. This letter expressed

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the belief of the Board that the procedure adopted contained the essentials of a workable plan designed to give expression to the common interests of the Federal Reserve banks in matters of open market policy and to provide a reasonable and practicable method for joint action. It requested that after each bank had had time to consider the plan its views thereon be forwarded to the Board.

"On March 24th and 25th, a meeting was held for the consideration of open market policy attended by representatives of the twelve Federal Reserve banks. At the conclusion of the regular business, a thorough discussion was had regarding open market procedure in the light of letters which had been received by the Board from the directors of eleven of the Federal Reserve banks. Following this discussion the representatives of the Federal Reserve banks, with the Governor of the Federal Reserve Board, were appointed a committee to prepare a further revision of the plan acceptable to them. This revision was then thoroughly discussed by the Board and the representatives of the Federal Reserve banks, with the result that some further changes were made.

"The revised procedure in its final form, copy of which is attached, was unanimously agreed to by the representatives of the Federal Reserve banks. It has since been considered by the Federal Reserve Board and was adopted by the Board without change, to become effective when ratified by the boards of directors of the twelve Federal Reserve banks. Please, therefore, submit the matter to the Board of Directors of your bank at its next meeting and advise the Board whether your directors accept participation in the Open Market Policy Conference under the plan as revised.

"In the Board's letter of January 23, 1930, it was pointed out that certain working arrangements which might be necessary would best be

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determined by the conference itself when organized. In this connection, the representatives of the Federal Reserve banks at the meeting on March 24th and 25th voted it to be the sense of those present at the meeting that the representative of the Federal Reserve Bank of New York on the Open Market Policy Conference should be elected chairman for one year; that the Executive Committee, provided for in the procedure, should consist of the chairman and the representatives of the Federal Reserve Banks of Boston, Cleveland, Philadelphia and Chicago for one year; and that the conference adopt a principle of reasonable rotation in the membership of the Executive Committee after the first year."

Communications on Open Market Operations and Discount and Buying Rates, April - mid-May 1930

Developments during early April. Under date of April 2 the Chairman of the New York Bank wrote the Board as follows:

"There has been no change in the total holdings of government securities in the Open Market Investment Account since my letter dated March 26, 1930, the total remaining at $327,300,000. There has, however, been a small change in the composition of the portfolio, and the participations by Federal reserve banks in the Account by virtue of an exchange in the market of $1,500,000 Fourth Liberty Loan bonds for a like amount of Treasury notes, and the sale to the Federal Reserve Bank of Boston, at their request, of $10,000,000 of government securities from our participation in the System Account. . . ."

At the meeting on April 7 the report submitted by the Open Market Policy Conference on March 24 was considered. The Governor reported "on his visit to New York last Thursday, commenting particularly on the spread between existing bill rates in this country and in England. He stated

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that the New York bank is not disposed to reduce its effective buying rates under present conditions but that he did not see any particular objection to reducing the minimum buying rate of the bank from 3% to 2 1/2% as recommended in the report. During the discussion, all of the members of the Board expressed themselves as in agreement with the views of the Committee that at present there is no occasion for further purchases of Government securities and that in the absence of some development that can not now be anticipated, bills should be bought below 3%. Some of the members of the Board, however, questioned the advisability of reducing the minimum buying rate to 2 1/2%."

At the conclusion of the discussion, it was voted to approve the report with the exception of the suggestion that the minimum buying rate be reduced, which was held under review.

On April 10 Mr. Case wrote the Board as follows:

"Referring to my letter dated April 2, 1930, the Treasury's operations in the government security market during the past week have brought about no change in the total of either the Open Market Investment Account or our own portfolio. . . . "

(Secretary's note: Effective April 8, 11, 12, 12, and 15, the Federal Reserve Board approved for the Federal Reserve Banks of Dallas, Richmond, Atlanta, St. Louis, and Minneapolis, respectively, a rediscount rate of 4 per cent on all classes of paper of all maturities.)

At the meeting on April 15 Governor Harrison was present and "acquainted the Board in detail with business and financial conditions in various European countries as observed by him during a recent trip abroad. He reported discussions had with officers of various European central banks regarding conditions in their respective countries and internationally. The

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general impression, he stated, seems to be that there is no world shortage of capital but a very bad geographical distribution which is an important factor in the present business and commodity price depression, and that banks of issue should do all they can toward rehabilitating the long term money market and effecting a redistribution of capital, although their efforts must necessarily be directed to the short term money market on the hope that the maintenance of reasonable rates for short time money will gradually affect the long time investment market."

Under date of April 16, Mr. Case wrote as follows:

"Although there have been some changes in maturities of the government securities held in the Open Market Investment Account, there has been no change in the total since my letter of April 10, 1930, the par value of governments held still being $327,300,000. . . ."

Letter from Board to Reserve Banks requesting meeting of Conference, April 19. The following motion was submitted by Mr. James at the meeting of the Board on April 18, but no action was taken:

"In view of the conditions shown in the Federal Reserve Board press release for April 17th, 1930, showing condition of weekly reporting member banks, which discloses the fact that loans on securities to brokers and dealers by member banks is higher now than in any period excepting October 30th and November 6th, 1929, I wish to offer a motion that the Board give consideration to calling a meeting of the Open Market Policy Conference at an early date, with a view of arranging for the disposal of not less than fifty million Government securities."

Following a discussion of Mr. James' motion at the meeting on April 19, the Governor was authorized to transmit the following letter to the Governors of all Federal Reserve Banks and to change the date of the

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proposed meeting if necessary or advisable:

"Money market and related developments since the last meeting of the Open Market Policy Conference March 24-25 have been such as to lead some thought here, as elsewhere, that the relation of the Federal Reserve System to current trends should be reviewed with a view of determining whether the System's position should be readjusted;- and, more particularly, whether the System portfolio of Governments should be maintained at its existing level.

"With these considerations in mind, I am writing to ask whether you think a meeting in the near future is desirable, and whether it would be convenient for you to attend, if the meeting were called for Monday, May 5th. It is realized that not all members of the Conference may find it convenient to attend, especially those living at a distance; and the fact that two meetings of the Conference have already been held this year is not overlooked by the Board.

"A written statement of views would be appreciated by the Board from any bank not participating in the meeting of the Conference, should it be called."

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Letter from New York Bank to Board, April 23. Under date of April 23 Mr. Case wrote the Board as follows:

"There have been no changes in the status of the Open Market Account since my letter to you dated April 16, 1930, the total par value remaining at $327,300,000 and the maturities practically the same as a week ago. . . . "

Board disapproval of 3 per cent New York Bank discount rate, late April. At the meeting of the Board on April 24, the Governor reported "a telephone conversation this morning with Governor Harrison, during which he was advised that the directors of the New York bank on Monday discussed and at their meeting today will probably act to reduce the discount rate of the bank to 3% and to request approval of a reduction in their minimum buying rate to 2 1/2%. Governor Harrison stated that as he was not present at the meeting on Monday he had not had much opportunity to consider the matter, but was passing it on for information of the Board."

Following a discussion of the probable action of the New York directors, Governor Young again talked over the telephone with Governor Harrison and advised him that there is some feeling on the part of the Board that the matter might well go over for a while, particularly in view of the recommendation of the recent meeting of the Open Market Policy Conference and the fact that another meeting of the Conference is in contemplation early in May.

At the afternoon session of the meeting of the Board on the 24th, the Governor reported "advice received from Governor Harrison that the directors of the Federal Reserve Bank of New York present at the meeting today unanimously voted to establish a rediscount rate of

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3% on all classes of paper of all maturities, with understanding, however, that their action is predicated upon approval or disapproval by the Federal Reserve Board today, and also voted to request approval by the Board of a minimum buying rate of 2 1/2% with the idea of putting into effect a rate of 2 3/4% if the discount rate is reduced to 3%."

The Governor reported the substance of a statement made to him by Governor Harrison over the telephone of the reasons which had led the Board of Directors of the New York bank to vote a reduction of its discount rate. The reasons had mainly to do with national and international conditions, such as the trend of business, commodity prices both in America and in Europe, money rates, and foreign exchanges and gold movements.

"Further discussion of the national economic and credit situation ensued, which developed a considerable variance of opinion between the New York Bank and the Federal Reserve Board with regard to Federal Reserve policy. It appeared that some of the members of the Board were still of the same opinion with regard to factors and conditions affecting Federal Reserve policy as they were at the time the Board began to consider a meeting of the Open Market Policy Conference early in May - to the effect that the immediate objective in credit policy should be the maintenance of stability rather than further easing through Federal Reserve action." Following this discussion it was voted to disapprove the action of the New York directors as to the discount rate and to determine that rate to be 3-1/2 per cent. Action on a motion to approve a minimum buying rate of 2-1/2 per cent was deferred for a later meeting of the Board. The motion was again considered at the meeting on April 30 at which time the Governor stated that the only bills coming to the

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Federal Reserve bank were very short maturities offered by member banks, that dealers' rates had been reduced, that the English buying rate had been lowered to 2-3/8 per cent, and that, in his opinion, the New York buying rate should be lowered, even though it may be a forerunner of a reduction in the discount rate of the bank. He also presented the following letter, dated April 28, from Governor Harrison setting forth the principal factors considered by the directors of the New York Bank when they took action at their meeting on April 24:

"At the meeting of our directors last Thursday, recent developments in credit and business conditions were reviewed at some length in their relation to the rate and credit policies of this bank. It may interest you to have the following brief summary of the principal factors in the situation which were considered:

"(a) Wholesale commodity prices continue to decline so that the last available weekly index indicates a level lower than at any time since the United States entered the war in 1917.

"(b) March figures for trade and production show considerable declines from February and on the whole were lower than at any time during the current movement.

"(c) Such figures as are available for April show that building contract awards continue to run substantially below last year. On the other hand, car loadings of merchandise show some increase in the first two weeks of April, though this may possibly be due to the late Easter trade. Car loadings of heavy freight show about the usual seasonal decline.

"(d) Current quarterly reports of many industrial corporations show large declines in volume and profits from a year ago.

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"(e) Our export trade for the first three months of 1930 shows a decline of about $280,000,000 from the same period of 1929 - a net decline of slightly over 20 per cent. Imports have declined about the same percentage.

"(f) The bond market has shown some weakness the past two weeks with a slight decline in prices and some backing up of new issues. We have felt that the financing of new enterprises and the restoration of purchasing power for commodities whose prices are still declining, depends in part at least upon the strength and activity of the bond market and that the revival of foreign purchasing power for our exportable surplus is largely dependent upon new capital acquired through the bond markets of the world, including the American bond market.

"(g) Gold continues to move to America - net imports amounting to almost $200,000,000 so far this calendar year.

"(h) Some of the foreign exchanges, especially the South American exchanges, are weak relative to the dollar.

"(i) Member bank credit has on the whole shown little expansion in recent weeks and Federal reserve credit continues to decline. On last Thursday total borrowings by all banks in this district were at a low record of recent years - approximately $35,000,000.

"(j) Our reserve percentage is approximately 82 per cent.

"(k) The stock market has been irregular and on the whole weaker during the past few weeks and in all the above circumstances there appears to be less risk of a too rapid expansion of bank credit collateraled by securities.

"It is, of course, difficult in the scope of a letter to review in any great detail the various matters discussed by the

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directors or to give the views of individual directors with respect to them. The above summary, however, refers to some of the main facts which were before the directors when they took action with respect to the discount rate at their meeting last Thursday."

During the discussion which ensued, some members of the Board "expressed their objection to a reduction in the minimum buying rate to 2-1/2 per cent, for the reason that it will probably force an early reduction in the discount rate, which they are unwilling to approve under present conditions and while the System maintains its present heavy portfolio of Government securities. They indicated that with a withdrawal of Federal Reserve funds from the market, through the sale of Government securities, a reduction in the discount rate might be justified." It was finally voted to approve a minimum buying rate of 2-3/4% for the New York Bank.

Under date of April 30 Deputy Governor Kenzel wrote the Board as follows:

"There have been no changes in the Open Market Investment Account since Mr. Case's letter to you dated April 23, 1930, the total remaining at $327,300,000 and the maturities the same as last week. . . . "

Board approval of 3 per cent discount rate, May 1. At the meeting of the Board on May 1 the Governor stated that the Bank of England had reduced its rate from 3-1/2 per cent to 3 per cent and the Bank of France from 3 per cent to 2-1/2 per cent, and reported that the directors of the Federal Reserve Bank of New York had unanimously voted to establish a rediscount rate of 3 per cent on all classes of paper; also, to renew their request that the Board approve for the bank a minimum buying rate of 2-1/2 per cent for purchases of bankers

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acceptances. Following consideration of the action of the New York directors it was voted to approve the rediscount rate of 3 per cent established by them and to approve a minimum buying rate of 2-1/2 per cent for the purchase of bankers' acceptances. Governor Young stated that it was his intention to advise the other Federal Reserve banks that because of the action taken on the New York rates it was not believed that a meeting of the Open Market Policy Conference would be necessary and that the contemplated meeting was cancelled.

Under date of May 1 the Board received a telegram from Deputy Governor Kenzel of New York advising that further reductions had been made in dealers' rates on bills and that the Federal Reserve Bank of New York would have bought bills at 2-7/8 per cent (up to 120 days) but had had no offerings. On May 2 the following schedule was established by the New York Bank:

1 to 120 days	2-3/4 per cent
121 to 180 days	3 per cent
Repurchase	2-3/4 per cent
Trade acceptances	3 per cent

(Secretary's Note: On May 7 the Federal Reserve Board approved a rediscount rate of 3-1/2 per cent on all classes of paper of all maturities, for the Federal Reserve Bank of Boston, effective May 8.)

On May 7 Mr. Case wrote the Board as follows:

"There have been no changes in the total of the holdings of Government securities in the Open Market Investment Account since Mr. Kenzel's letter to you, dated May 1, 1930, the total remaining at $327,300,000. The maturities ha e also remained at practically their previous figure. . . . "

On May 8 the New York Bank established the following schedule of buying rates:

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1 to 60 days	2-1/2 per cent
61 to 120 days	2-5/8 per cent
121 to 180 days	3 per cent
Repurchase	2-5/8 per cent

On the same date the New York directors voted to request the Board to reduce to 2 per cent the minimum buying rate for the purchase of bankers acceptances at the bank. Action on this request was deferred at the meeting on May 9 for a full meeting of the Board.

Decision to call meeting of Conference to discuss advisability of purchases. Governor Harrison was present at the meeting of the Board on May 14 and discussed with the Board the depressed business situation in this country and the world generally. He stated that "the directors of the Federal Reserve Bank of New York have discussed the matter of possible future System policy but do not recommend any action at the present time. He stated that probably the only action which could be considered by the Federal Reserve System, if anything were done, and if conditions at the time justified it would be to embark upon an open market operation in Government securities. He suggested the advisability of a review of existing conditions through a meeting, in the near future, of the Open Market Policy Conference or the executive committee of the Conference, but no definite commitment on this suggestion was made by any member of the Board."

The following letter was received from Deputy Governor Burgess under date of May 14:

"Since Mr. Case's letter to you dated May 7, 1930 there has been no change in the total holdings of government securities in the Open Market Investment Account. The amount still remains at $327,300,000, with the maturities practically unchanged. Our own holdings also remain the same at about $112,000,000. . . . "

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At the meeting on May 15 the Governor referred to the suggestion made at the meeting yesterday by Governor Harrison "of a meeting soon of the Open Market Policy Conference or the Executive Committee of the Conference. He also referred to the apparent intention of the New York bank to initiate in the near future a policy looking toward further ease of the credit situation through purchases of Government securities. He expressed the opinion that a meeting of the Open Market Policy Conference would probably be advisable in order that all Federal Reserve banks may be informed of the program which the New York bank seems to have in mind and stated that if the members of the Board have no objection he will call a meeting for Wednesday, May 21st. Discussion ensued during which some members of the Board expressed doubt as to whether any benefits will accrue from an open market meeting at this time unless some definite recommendations are to be submitted and that they personally would be opposed to any program of Government purchases." Other members, however, agreed with the Governor that all Federal Reserve banks should be kept informed of possible future developments, and it was voted to call a meeting of the Open Market Policy Conference on May 21.

On May 19, the New York Bank established the following schedule of buying rates:

1 to 90 days	2-1/2 per cent
91 to 120 days	2-5/8 per cent
121 to 180 days	3 per cent
Repurchase	2-1/2 per cent

On May 21 the System's total holdings of bills and securities amounted to $932,000,000, of which amount $528,000,000 was in the form of Government secutities, $187,000,000 in bills, and $210,000,000 in bills discounted.

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Meeting of May 21-22, 1930

The Federal Reserve Board met with the members of the Open Market Policy Conference in Washington on May 21. At this meeting the Governor reported "that participation in the Open Market Policy Conference under the revised plan recently approved by the Board has been accepted by all Federal Reserve banks and that this, accordingly, is the first formal meeting of the Conference. He stated that in its acceptance the New York bank set forth its interpretation of the plan as not affecting in any way the present procedure with respect to bill operations."

He also reported that at the meeting of the Federal Advisory Council with the Board on May 20 the Council had no recommendation to make with regard to discount rates or open market policy, apparently being of the opinion that no action by the System is necessary just at this time. He also reported that on the question of the advisability of increasing Federal reserve bank rates 1 per cent at a time instead of 1/2 per cent, as had been customary, the Council did not care to make a definite recommendation, feeling that while such a policy might be advisable under certain conditions, a raise of one-half per cent would be preferable.

Preliminary memorandum. At a separate meeting of the Open Market Policy Conference on the 21st, the following preliminary memorandum was considered:

"Reports on business activity during the two months since the last meeting of the Open Market Investment Committee have, in general, shown no material evidence of recovery. After allowance for the usual seasonal increase, final figures for March showed some

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reduction from February in general production and trade, and April figures apparently will show a slight increase, but, in general, there seems to have been little advance from the lowest levels reached during the recession which began last autumn.

"In some directions conditions appear to have become somewhat worse, rather than better. Factory employment, for example, failed to show the customary spring increases, and the Federal Reserve Board's seasonally adjusted index has declined each month to a new low point for recent years. The bond market, which at the time of the March meeting had been showing a strong advance, has since had a setback and, although there has been some improvement accompanying the easy money conditions of the past three or four weeks, the recent condition of the bond market cannot be called better than fair. Commodity prices, after some indication of a slightly firmer tendency in the latter part of March, have subsequently turned downward again and the weekly index of 285 commodities computed by the Federal Reserve Board has declined gradually, but steadily, to new low levels since 1916.

"COMMODITY PRICES:

" . . . there has been a decline of about 2 per cent /In the Board's commodity price index/ since March 28, and approximately 10 per cent since last July.

"This decline has not been confined to any one group of commodities. . . . while some of the most severe declines since last July have been in agricultural products, there have been substantial declines also in metals and other industrial raw materials.

"SECURITY MARKETS

"Just preceding the last meeting of the Committee on March

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24 and 25, the bond market showed a rapid increase in the volume of trading, and a rapid rise in prices. Apparently this represented, in part, a response to the unusually easy money conditions which developed for a short time during the March tax period because of the temporary excess of Treasury disbursements over collections. With the firmer money conditions that developed in the latter part of March and the early part of April, there was a reaction in the bond market; the volume of bond trading on the New York Stock Exchange declined from around $20,000,000 a day to around $10,000,000; a large part of the March rise in bond prices was canceled; and there were reports of a considerable accumulation of undigested bonds in the hands of security dealers.

"Accompanying the easier money conditions of the past few weeks, however, bond market conditions have shown some slight improvement. There has been no sustained increase in the volume of bond trading on the Exchange, but it is reported that the accumulation of bonds has been to some extent distributed, and that there has been a little better distribution of new offerings, which have been in large volume. Bond prices, however, have not reached the levels of the third week in March, and the market is not strong.

" . . . there has been a larger volume of domestic corporate bond issues /during the first four months of 1930/ than in either of the two previous years, an increase also in foreign corporate issues, and a considerable revival in issues of domestic municipalities and states, and also in foreign governmental borrowing through the bond market. The increased issues reflect in part the carrying out of financing postponed by reason of adverse market conditions last year, and also represent the partial fulfillment of pledges made to the

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President by corporation and public officials. An analysis of the issues indicates a large part of the proceeds are being used directly in undertakings involving construction or other undertakings involving the employment of labor and the purchase of materials. . . . Although recent money rates have made bond yields more attractive than for two years past there still appears to be reluctance on the part of commercial banks to increase their bond holdings materially.

"Notwithstanding the somewhat firmer money conditions during the latter part of March and the early part of April, stock prices continued to rise during that period, and at the highest point reached early in April, a general index of stock prices showed a recovery equal to nearly 60 per cent of the decline from the highest level reached in 1929 to the lowest point of last November. Subsequently, although money conditions have eased, there has been a substantial decline in stock prices, and recently the volume of trading has diminished considerably.

"MONEY RATES

"/There was/ a distinct firming between March 21 and April 16 in a majority of rates, including call money, time money, and bankers acceptance rates, and yields on short-dated Treasury certificates. During that period there was no evidence of any considerable surplus of funds seeking short-term investment in the New York money market. In fact, the advance in rates reflected some slight difficulty in meeting the demand for funds, a difficulty which was further evidenced by a considerable increase in sales of bills to the New York Reserve Bank under repurchase agreement. During the latter part of April money conditions eased slightly, reflecting chiefly a substantial inflow of gold, and this movement toward easier conditions was accelerated early

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in May by reductions in the rediscount rate of the Federal Reserve Banks of New York and Boston, and by a further decline in the amount of currency in circulation. Even during this later period, however, there were only a few days on which the New York banks were completely out of debt, and surplus funds in the market were rather promptly absorbed by reductions in the system bill portfolio.

"FEDERAL RESERVE CREDIT

"Funds made available through gold imports or currency reduction were used to reduce the amount of Federal Reserve credit in use, rather than for any expansion in credit, . . .

"Discounts for member banks show little change /from March 24 to May 17/. Between March 24 and April 16 the bill holdings of the System increased $61,000,000, largely in sales contracts, accompanying firmer money conditions. Subsequently, gold imports and the continued reduction in the amount of currency in circulation made available funds which were used to reduce bill holdings over $100,000,000.

"MEMBER BANK CREDIT

"Since the statement date just preceding the last meeting there has been a comparatively small increase in the total loans and investments of weekly reporting member banks, as follows:

(In millions of dollars)

	Amount on		
	March 19	May 14	Change
Loans on securities	8,054	8,246	+ 192
All other loans	8,793	8,560	- 233
Investments	5,667	5,811	+ 144
Totals	22,514	22,616	+ 103

"One factor in the recent trend of bank loans, no doubt, is the fact that municipalities and, to some extent, corporations, which last year were unable to obtain long-term loans under favorable

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conditions through the bond market, and consequently relied upon short-term bank loans, this year have sold long-term bonds and have used part at least of the proceeds to repay bank loans. To the extent that the increase in security loans has been due to borrowing by security dealers to carry such securities pending distribution, the loans which would now be included in "loans on securities" may be serving the same purpose as last year, when they would have been included among the "all other loans."

* * *

" . . . although the security loans of weekly reporting banks are now higher than on October 2 of last year, there has been a net liquidation of nearly 4 billion dollars of loans on securities during the intervening period. The analysis indicates further that, although the loans of weekly reporting banks to brokers for their own account have incresed nearly $1,100,000,000 since December 24, practically $400,000,000 of this amount has served simply to replace loans to brokers withdrawn by lenders other than domestic banks, and the remainder has replaced loans made by reporting banks directly to their customers, so that there has been no net increase in total security loans since December 24, notwithstanding the fact that the weekly reports of brokers loans have indicated a net increase of about $750,000,000. Even since February 26 a substantial part of the increase in the loans of reporting banks to brokers has simply offset continued withdrawals of funds from brokers loans by "other" lenders, and continued reductions in security loans made by the reporting banks directly to their customers.

"The total reduction in loans for 'others' indicated by this analysis is nearly $3,400,000,000 since last October, not including the

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reduction of unknown amount in loans to New York brokers by customers of cut-of-town banks. The reduction did not all take place last autumn, but has continued during the past few months, and it seems quite possible that it may have some bearing on the continued decline in the 'commercial' loans of reporting banks. That is to say, the steady withdrawal of funds from the call loan market by corporations and other lenders may well have provided current funds for business transactions, which otherwise might have been borrowed at banks."

Action of Conference. The Board met with the Open Market Policy Conference again on May 22 at which meeting Governor Harrison stated "that during the separate session of the Open Market Policy Conference its formal organization was considered with the result that he, as representative of the Federal Reserve Bank of New York, was chosen as Chairman, and Deputy Governor Burgess of the New York Bank as Secretary. He stated that the Executive Committee will be composed of the representatives of the Boston, New York, Philadelphia, Cleveland and Chicago banks for a period of one year, and that a policy of rotation among the Federal Reserve banks will be followed thereafter in the selection of the Committee.

"He stated it was also 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 Conference also voted, he stated, 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 the directors of any Federal Reserve bank must be free at any time to change

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the discount rate of their bank, subject only to the review and determination of the Federal Reserve Board.

"With regard to the suggestion of one of the Federal Reserve banks, reported yesterday by Governor Young, that it be permitted to purchase Government securities for the purpose of supplementing its earnings, Governor Harrison reported that 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 full credit requirements, Governor Harrison reported that 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.

"He stated that the Conference heard a report by him with regard to the foreign situation, based upon his recent trip abroad, and after reviewing the domestic situation both with respect to business and credit conditions, adopted the following:

"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

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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 recommendation of its Executive Committee."

Governor Young "referred to communications which have been received recently from certain of the Federal Reserve banks regarding open market policy and requested that the Governors of the banks in advising the Board of their views in the future state whether or not they believe that a meeting of the Open Market Policy Conference should be held for the purpose of considering their suggestions or views."

"Governor Harrison stated that if any Governor having such a recommendation to make would send a copy of his letter to the Board to each other Governor, either directly or through him as Chairman of the Conference, the entire Conference would be acquainted with the views of the individual members.

"Mr. Miller called attention to the considerable decline in the volume of Federal Reserve credit. During recent weeks it has been running well below $1,000,000,000. Taking the monetary gold stock of the country and the outstanding volume of Federal Reserve credit together, the aggregate of these is less than at any time since 1924. He

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raised the question whether this did not involve a contraction of the basis of fundamental credit, whose effects would be felt not only in the United States but throughout the Western World.

"Keeping in mind all factors in the present situation, he expressed the opinion that the volume of Federal Reserve credit outstanding should be maintained at a thousand millions of dollars, and that when it showed a tendency to run below this, the volume should be built up by open market purchases. The policy of maintaining such a volume of credit, irrespective of demands for Federal Reserve credit, would prevent liquidation in credit and business from becoming too drastic and thus working an unnecessary and undesirable contraction.

"Governor Harrison stated that he knew the directors of the New York Bank would look with favor upon an early purchase of Government securities in the event there was not some immediate change in the present outlook about which they have much concern.

"Conditions in the bond market were discu sed in this connection and the question of whether or not the market would be revived by security purchases on the part of the Federal Reserve banks.

"Some members of the Conference expressed the view that there is no shortage of investment money but the reluctance of investors to purchase bonds is due to lack of confidence because of the character of issues which have been brought out during the past few years."

Consideration of Open Market Operations and Discount Rates, Late-May--Mid-June 1930

Developments May 22-28. On May 22 Mr. Burgess wrote the Board as follows:

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"There has been no change in the holdings of Government securities in the Open Market Investment Account since my letter to you dated May 14, 1930, the total remaining at $327,300,000, with the maturities practically unchanged. Our own holdings are also about the same as a week ago, namely $112,000,000, the few changes in maturities that there were consisting mainly in the replacement of the Treasury Bills which matured on May 19, 1930, with the new bills maturing August 18, 1930. . . . "

At the meeting of the Board on May 27, Governor Young called up for consideration the request made by the directors of the Federal Reserve Bank of New York at their meeting on May 8 that the Board approve for that bank a minimum buying rate of 2%, but it was felt by the members of the board present that under existing conditions action by the Board at the time was not necessary.

On May 28 Deputy Governor Burgess wrote as follows:

"The total holdings of government securities in the open market account have not changed since my last letter to you dated May 22, 1930, the total remaining at $327,300,000. The individual holdings of this bank have likewise remained practically unchanged as to the total. There have, however, been some changes in the maturities in both accounts, the greater part of such changes being for the purpose of providing the Treasury with 3 1/2% notes of Series A, maturing March 15, 1932. Treasury purchases of these notes totaled $10,000,000 on last Tuesday, $10,000,000 today, and $5,000,000 next Tuesday. . . . "

Decision to resume purchases. At the meeting of the Board on May 29 the Governor reported "a telephone conversation with Governor Harrison of the Federal Reserve Bank of New York, who

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advised him that at the meeting of his Executive Committee on Monday there was a feeling on the part of the Directors of the Bank that some action should be taken by the Federal Reserve System to further ease the credit situation and that in all probability a recommendation will come from them in the next week or so for the purchase of Government securities. He also reported that the bill holdings of the System are running off with the outside rate in New York slightly below the Federal reserve bank rate and that Governor Harrison advised him that had his bank any leeway below its minimum authorized rate of 2 1/2%, he would recommend to his Directors a reduction of 1/8%, not in an attempt to accumulate bills but to follow the market and maintain present holdings." Some members of the Board stated they would not care to vote a reduction in the minimum buying rate of the New York bank pending further consideration by the Board of the possible program of purchases of Government securities, and it was voted to make the question of the minimum buying rate special order of business at the meeting on June 2.

At that meeting the Governor referred to the report made by the Open Market Policy Conference on May 22 that it did not appear to the Conference that any affirmative recommendation as to open market operations was advisable at the time. He stated, that the directors of the Federal Reserve Bank of New York, however, felt that there should be some further easing without delay, and at their meeting on May 29 had made a recommendation that the System proceed to purchase Government securities at the rate of $25,000,000 a week. He stated that Governor Harrison had taken the matter up with the Executive Committee of the Open Market Policy Conference and the Governors of the

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other Federal Reserve Banks, but not having heard from all of them was not prepared to advise the Board formally. Governor Harrison advised informally, however, Governor Young stated, that of the nine banks heard from six were favorable to the New York recommendation and three were opposed. There was considerable discussion regarding the probable effects of a program of security purchases, coupled with a reduction in the buying rate on bills and a majority of the members present indicated that they were prepared to vote a reduction in the minimum buying rate of the New York bank, and, upon a formal vote being taken, a minimum buying rate of 2 per cent was approved for the New York bank.

As the special order of business at the meeting of the Federal Reserve Board on June 3, the following telegram, dated June 3, from Governor Harrison with further regard to additional purchases of Government securities was considered:

"This telegram is to confirm telephone conversations of Thursday, yesterday and today. Our directors, while approving unanimously the report of the Open Market Policy Conference of its meeting of May 21 and 22 after a thorough discussion voted on May 29 that in their opinion it now seems desirable for the system to undertake the purchase of Government securities in moderate amounts. In reaching this conclusion our directors had before them evidence that the current business depression was continuing without any important indication of improvement. It was their belief that the hope of greater business activity and increased purchasing power for our surplus products depends at least to some extent upon the financing of new undertakings both at home and abroad through the bond market. While the directors appreciate that it is impossible to forecast accurately the extent of the effect of

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the proposed purchases, nevertheless they feel that the money position is so delicately balanced that even a slight addition to the available reserve funds might prove helpful both from the point of view of its direct influence on the bond market and in the psychological benefit which might also arise. In any event it seems clear that small purchases of Government securities at this time could do no harm and a test with the hope that they might be of some benefit seems desirable. Since the meeting of our directors on Thursday we have discussed the question of purchases of Government securities with the members of the Executive Committee of the Open Market Policy Conference and with the Governors of all other Federal Reserve banks. A majority of the Executive Committee and a majority of the Governors of all Reserve banks are now in favor of purchasing not to exceed $25,000,000 a week of Government securities for the next two weeks with the understanding that at the end of that time the situation would again be reviewed. We should appreciate the action of the Board upon this proposal of a majority of the Conference."

The Governor stated that "Governor Harrison advised him that of the Executive Committee of the Open Market Policy Conference the representatives of the Federal Reserve Banks of Boston, New York and Cleveland approve the recommendation contained in the above telegram, while Philadelphia and Chicago disapprove. Of the twelve banks, he stated, the representatives of Boston, New York, Cleveland, Richmond, Atlanta, Minneapolis and Kansas City approve, Philadelphia, Chicago, Dallas and San Francisco disapprove, and the representative of the Federal Reserve Bank of St. Louis interposes no objection."

In the discussion which followed, some doubt was expressed

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as to the advisability of Government purchases by the System before the June 15 tax payment period. It was suggested that the Board reply to the recommendation of the majority of the Open Market Policy Conference that the Board will approve the purchase of Government securities whenever and to the extent that the earning assets of the Federal Reserve banks fall below $1,000,000,000. It was finally voted to approve the purchase of not to exceed $25,000,000 a week of Government securities for the next two weeks with the understanding that at the end of that time the situation would again be reviewed.

Developments June 3-13. On June 3 the Federal Reserve Bank of New York established the following schedule of effective rates for purchases of bankers' acceptances:

1 to 45 days	2-3/8 per cent
46 to 120 days	2-1/2 per cent
121 to 180 days	3 per cent
Repurchase	2-1/2 per cent

Deputy Governor Burgess, of the Federal Reserve Bank of New York, wrote the Board under date of June 4, as follows:

"Holdings of government securities in the Open Market Account will show an increase of $15,000,000,000 over a week ago, the total now being $342,300,000 against $327,300,000 when I wrote you last on May 28, 1930. This increase of $15,000,000 represents purchases of Treasury 3 1/2 per cent notes made today in pursuance of the plan which has been agreed upon to make purchases for System Account not to exceed $25,000,000 a week for the next two weeks, referred to in Governor Harrison's telegram of June 3 and your letter of that date. Aside from this increase there have been no changes in the maturities of the securities held in the account. We have arranged

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for additional deliveries tomorrow of $5,000,000 and have also arranged for deliveries at our option next week. . . . "

On June 5 the Federal Reserve Bank of New York established the following schedule of effective buying rates on bankers' acceptances:

1 to 90 days	2-1/4 per cent
91 to 120 days	2-3/8 per cent
121 to 180 days	2-3/4 per cent
Repurchase	2-3/8 per cent

(Secretary's note: With the approval of the Federal Reserve Board, the Federal Reserve Bank of Cleveland, on June 7, established a rediscount rate of 3-1/2 per cent on all classes of paper of all maturities.)

Under date of June 13, Deputy Governor Burgess of the Federal Reserve Bank of New York advised the Board as follows:

"Since my last letter to Governor Young dated June 4, 1930, the holdings of government securities in the Open Market Account have increased $35,000,000, from $342,300,000 to $377,300,000 at the close of business June 11. This increase represents further purchases of government securities made in pursuance of the plan agreed upon to purchase a total of $50,000,000 of governments for System Account last week and this. Aside from these purchases, the Federal Reserve Bank of Atlanta, due to conditions in Florida, asked to be relieved temporarily of $8,000,000 of its participation in government securities in the System Account. These securities were taken over temporarily into our participation in the System Account yesterday and have been apportioned today to other Federal reserve banks which, in response to a telegram, expressed a willingness to participate. . . . "

Reduction of New York Bank discount rate to 2-1/2 per cent. Governor Harrison was present at the meeting of the Board on June 16 and stated "that at his directors' meeting two weeks ago, they reviewed

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business conditions in their relation to credit conditions, and while they felt there was not much they could do directly to create more activity in business, nevertheless, they felt that with the world depression in business, commodity prices and export trade, and with no definite evidence that conditions are better, the System should do whatever it can to remove any possible obstacles to recovery, and, more directly through the short-time money market, to influence and build up a bond market through which the directors think recovery must ultimately be expected. It was the feeling, he stated, that the New York bank rate should soom go to 2 1/2%.

"He stated that his directors again raised the question last Thursday and would have voted unanimously for a reduction had he recommended it, but that he urged them to put it off a week as it would be better to wait until the effect of the purchase of fifty million of Government securities could be observed and the Treasury quarterly financing is over and the reparations loan out of the way.

"While he was unable to commit his directors in advance, Governor Harrison stated that in view of the discussion at the meeting last Thursday, unless there is some substantial change in the meantime, he is of the opinion they will vote unanimously at their next meeting for a reduction in the rate to 2 1/2%. In Governor Harrison's opinion, his directors have no undue expectations as to what a reduction in the rate will do. Their policy has not been predicated on the thought that anything the System could do would of itself stop the decline or that it could in any direct way make prices better or insure greater business activity, but they have desired to do what is within the power of the bank to remove any possible obstacles or to facilitate the

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recovery when the time comes for business to pick up.

"Some of the directors pointed out, he stated, that while business figures as a whole do not show any improvement, the fact must be taken into account that they would show an even greater decline if it were not for activity in public utilities, railroads and municipalities, which have proceeded fairly actively as a result of the Administration program of last winter. Mr. Owen D. Young has pointed out, however, that if prices continue to decline and if other lines of business and industry do not give their support, the utilities, railroads and municipalities cannot be expected to continue their construction and equipment programs and the time will come when they, themselves, must slow up.

"Governor Harrison further stated that he believes on the whole, the feeling of the directors of the Federal Reserve Bank of New York is that there isn't much hope of real improvement for several months, and some of them feel improvement may not be marked before next year. They are particularly concerned about the export trade which has such a direct effect upon commodity prices and feel that a revival of our foreign markets depends largely upon the bond market, and that hopes of getting a strong bond market rest upon a continued ease in the short-time money market more than anyghing else.

"In response to the Chairman's questions as to what effect the proposed reduction would have on the Bank of England, Governor Harrison said he had not yet communicated with the bank, but his feeling is that if the Federal Reserve Bank of New York should reduce its rate on Thursday, the Bank of England would probably go down the next week.

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"Mr. Hamlin explained to Governor Harrison that their will probably not be a quorum of the Board present on Thursday and inquired whether any action that the Board might take now authorizing approval of a reduction in the New York rate, if voted by the directors on Thursday, might be construed as initiation by the Board of the reduction in rate. Governor Harrison replied that he thought not, since he had come to Washington to advise the Board that as he sees if now, he will recommend the reduction next Thursday, and, on the basis of the discussion last week, he has every reason to believe that his directors will unanimously approve of it. Any action by the Board now, he stated, would therefore be simply in expectation of the bank's possible action next Thursday.

"Governor Harrison also stated that, in his opinion, when the demand for credit does come, the System will have to be prepared to consider when and how rapidly it will increase rates, because in his judgment, a 2 1/2% rate is a recognition of a serious depression and in his present judgment should not be long maintained in the face of any really substantial demand for bank credit whether from increased business activity or other causes."

At this meeting, in view of the possibility of a quorum of the Board not being present during the next several days, the Vice Governor was authorized and directed to approve a rate of 2-1/2 per cent if established by the directors of the Federal Reserve Bank of New York on Thursday, and to approve a reduction of not exceeding 1/2 per cent in the rate of any other Federal reserve bank, if and when voted.

On June 16 the Federal Reserve Bank of New York established the following schedule of effective buying rates on bankers' acceptances:

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1 to 45 days	2-1/8 per cent
46 to 120 days	2-1/3 per cent
121 to 180 days	2-1/4 per cent
Repurchase	2-1/4 per cent

At the meeting of the Executive Committee on June 18, Vice Governor Platt stated that after consultation with him, the Chairman of the Open Market Policy Conference had called a meeting of the Executive Committee of the Conference for Monday, June 23.

Deputy Governor Burgess wrote the Board as follows, under date of June 19:

"The Treasury tax period has passed as anticipated with very little disturbance to the market due largely to the payment by foreign governments of their interest in cash.

"There has been no change in the total holdings of government securities in the Open Market investment Account since my last letter to you dated June 13, 1930. . . . "

At the meeting of the Executive Committee on June 20, Vice Governor Platt reported that in accordance with the directions of the Board at the meeting on the 16th, he had approved a discount rate of 2-1/2 per cent for the Federal Reserve Bank of New York on all classes of paper of all maturities, effective June 20. A request of the New York directors for a minimum buying rate for the purchase of bankers' acceptances of 1-3/4 per centwas also considered at this meeting, but action was deferred.

On June 20 the Federal Reserve Bank of New York established the following schedule of effective buying rates on acceptances:

1 to 90 days	2 per cent
91 to 120 days	2-1/8 per cent
121 to 180 days	2-3/8 per cent
Repurchase	2-1/8 per cent
Trade acceptances	2-1/2 per cent

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(Secretary's note: With the approval of the Federal Reserve Board, the Federal Reserve Bank of Chicago established a rediscount rate of 3-1/2 per cent on all classes of paper of all maturities, effective June 21.)

Meeting of Executive Committee, June 23, 1930

Preliminary memorandum of Chairman. The Executive Committee of the Open Market Policy Conference met in Washington on June 23, at which meeting the following preliminary memorandum submitted by the Chairman of the Conference was considered:

"During the past two weeks the purchase of $50,000,000 of U. S. Government securities for the System account, approved by a majority of the members of the Open Market Investment Committee, has been completed. As in the case of previous security purchases, the principal effect has been to accelerate the tendency toward easier money conditions, by facilitating the retirement of indebtedness of member banks and reducing the dependence of the acceptance market on the System.

* * *

". . . since June 3 the purchase of $50,000,000 of U. S. Securities, together with the liquidation of Reserve Bank credit called into use temporarily over the May month-end, has resulted in a reduction in member bank indebtedness to an amount slightly smaller even than around the middle of May, notwithstanding the reduction of over $50,000,000 in the bill holdings of the System. The reduction in System bill portfolio reflects larger holding of bills by member banks, which gives them a cushion against recurring periods of firm money.

"Accompanying these changes in the form of Federal Reserve credit in use, there has been a definite, but orderly, decline in money rates. Treasury tax period operations did not result in any large surplus of funds in the New York money market, even temporarily, such as caused the rapid

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fluctuation in money rates during the March tax period. The following table shows the change in rates both before and after the change in the discount rate of the Federal Reserve Bank of New York effective June 20.

	May 21	June 3	June 19	June 20
Call money	3	3	2 1/2	2 1/2
Time money, 90 days	3 1/4-1/2	3 1/4	2 3/4	2 1/2-3/4
Bills, 90 days, un-endorsed	2 3/8	2 3/8	2 1/8	2
Commercial paper	3 3/4	3 1/2-3/4	3 1/2-3/4	3 1/4-3/4
U.S. Certificates				
Sept. 1930 - yield	2.21	1.98	1.65	1.60
Dec. 1930 - yield	2.63	2.41	1.95	1.92

"Business Conditions

"During the month since the last meeting of the Open Market Policy Conference in May, business conditions have shown no material change - if anything, the tendency has been toward a further decline, rather than toward definite improvement. In the largest industries, such as the steel, automobile, and building industries, the recent changes have apparently been chiefly of a seasonal nature, and factory employment also has shown a decline of about the usual proportions for the time of the year, but substantial curtailment has occurred in the cotton goods industry. . . .

"It is now apparent that the current recession in business bears greater similarity to that of 1921 than to the recessions of 1924 and 1927. As in 1921, the decline in this country has been accompanied by a world-wide business depression, and a world-wide decline in commodity prices. The last weekly commodity index of the Federal Reserve Board, for June 13, showed the largest decline for any week this year. During the past week wheat and cotton have declined substantially, as shown in the accompanying diagrams, wheat reaching a new low point since before the War, and cotton

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the lowest since 1926-1927, when the price was depressed by an unusually large crop.

"Business Demand for Funds

"The commercial loans of weekly reporting banks have continued the unseasonable decline noted at the last meeting of the Committee, so that the total reduction in these loans since last autumn is now by far the largest that has occurred since 1921. This does not mean, however, that there is no business demand for funds; the demand is for capital rather than short-term credit, and the demand has been so great as to exceed at times the gradually increasing supply of funds seeking employment in investment securities, and the bond market is not yet really strong and easily becomes congested.

* * *

"The total amount [of new bond issues so far] this year has been approximately 50 per cent larger than in the first five months of last year, and considerably larger also than in the similar period in 1928. This large increase in new issues apparently is in response to an unsatisfied demand for capital which accumulated during the high interest rate period of the past year and a half. During that period foreign borrowing in this market was largely suspended; municipal borrowing through the bond market was held back; and the amount of new capital obtained by domestic producing and distributing corporations, notwithstanding the extraordinarily large volume of corporation securities which were sold, was not unusually large. A large proportion of the stock issues in 1929 represented funds obtained by investment trusts and financial trading corporations, new securities issued in exchange for old securities in cases of mergers, and stock issues sold for the purpose of retiring bonds or

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bank loans. Consequently, this year there has been no evidence that domestic corporations are oversupplied for capital, but rather there has been an increase in the demand for capital, especially from railroad and public utility corporations, and the bond market has not been strong enough to furnish all the funds which could be used.

". . . in 1921-1922 there was a similar tendency for an enlarged demand for capital through the bond market to precede business recovery, whereas the demand for short loans tended to follow, rather than to precede, business recovery. In the less severe recessions of 1924 and 1927, also, a large volume of new capital issues preceded business recovery, while expansion of commercial loans awaited increased business activity.

"Member Bank Credit

"In view of this tendency for a demand for capital funds to precede a business demand for short-term credit after periods of business recession, it is not surprising to find that there appears to be a corresponding tendency for expansion in member bank credit to occur first in the forms of credit related to the capital market, rather than in short-term commercial credit. . . . bank investments and loans on securities have increased before commercial loans. Tendencies in bank credit during recent months, . . . appear to have been somewhat similar to those of corresponding periods in previous years.

"An analysis of security loans indicates that, notwithstanding the high level of security loans in reporting banks, the total of currently reported security loans, including loans of corporations and others to brokers, has shown a reduction of nearly $4,000,000,000 since last autumn. . . .

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"From the high point of last September to June 11, the Standard Statistics Company index of the prices of 405 stocks showed a net decline of 28 per cent. The figures above show a decline of 27 per cent in the total of currently reported security loans during the corresponding period. In view of the fact that bank loans on securities undoubtedly include a certain proportion of business loans and do not represent exclusively loans for the purpose of carrying securities on margin, and include also loans on bonds, it is clear that the amount of loans used purely for security trading purposes has declined more than security prices, and that a larger proportion of stocks at the present time are held outright than was the case last autumn. Another factor in the volume of security loans has been the large amount of new securities which have been offered for public subscription during recent months, some part of which, no doubt, have been carried on borrowed funds, pending distribution.

"The increase in security loans of reporting banks since last October has been entirely in loans to brokers - presumably the most liquid type of security loans - and has represented simply a partial replacement of the large volume of loans called by corporations and other non-banking lenders.

"Member Bank Investments and Federal Reserve Security Purchases.

"The increase in bank investment holdings during recent months has proceeded rather slowly. No doubt this has been due to some extent to the decline in bond prices last year, which has made banks reluctant to increase their investment portfolios. Investments of weekly reporting member banks now constitute a smaller proportion of their total loans and investments than was the case three years ago. Compared with the growth

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in the proportion of time deposits to total time and demand deposits in these banks, the increase in the proportion of investments has lagged decidedly, . . .

". . . purchases of Government securities by the Reserve Banks at several times during recent years have expedited the purchase of investment securities by commercial banks. As in earlier periods, the increase in the System's holdings of Government securities since last autumn has been followed by an increase in the investment holdings of reporting member banks. Up to the present time, however, this increase in bank investments has been considerably smaller than that of 1922 or 1924, although to produce an equal effect, a much larger increase would be required at the present time; that is to say, the growth in the business of the country since 1921 has probably amounted to around 45 per cent, so that the capital requirements of business have been greatly enlarged. The increase in investment holdings, moreover, has not yet been sufficient to replace the decrease last year.

"The effect of Reserve Bank purchases of Government securities on the position of member banks, with respect to their ability to increase their investments, was supplemented in 1921-1922 and in 1924 by heavy imports of gold. This year also there has been an inflow of gold, but it has been small in comparison with the movements in the earlier periods."

Action of Committee. Following its separate meeting, the Executive Committee of the Open Market Policy Conference met with the Federal Reserve Board, and in response to Vice Governor Platt's inquiry as to whether or not the Committee had any recommendations to make, Governor Harrison stated that "when the advisability of an open market operation

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was considered some two weeks or so ago it was recommended that the System buy Government securities not to exceed $25,000,000 a week for two weeks, with the understanding that the situation would then be reviewed, and this meeting had been called with a view of carrying out that contemplated review. He stated that the Committee had gone over credit conditions as they now see them and had considered a preliminary memorandum submitted by the Chairman, and a majority of the Committee - four out of five - had voted that the Committee should not recommend any open market operation at this time.

"He also stated that as he understands the procedure approved by the Board there is no recommendation to be made by the Committee to the Board, but that the Committee meets for the purpose of making recommendations to the whole Conference, which recommendations would then be submitted to the Board. The Committee is making, he stated, a report to the Board that the Committee as a whole voted to make no recommendation as to an open market operation now. Mr. Platt pointed out that "the System's holdings of Government securities at the present time are within $50,000,000 of the peak on June 14, 1922 when they were $630,000,000 but that at that time the discounts of member banks amounted to $414,000,000, while on June 18 they were only $207,000,000." He also distributed copies of the following letter from Governor Calkins, dated June 16, setting forth reasons why the Federal Reserve Bank of San Francisco did not participate in the $50,000,000 of Government securities recently purchased:

"Recalling somewhat late a remark you made to the effect that when a bank disapproves of the recommendations of the Open Market Policy Conference it might properly advise the Board as to the reasons for its disapproval, I think I may briefly summarize our reasons for not

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participating in the $50,000,000 Governments recently purchased as follows:

"a. With credit cheap and redundant we do not believe that business recovery will be accelerated by making credit cheaper and more redundant.

"b. We find no reason to believe that excessively cheap money will promote or create a bond market, seeing evidence in the recent past to the contrary, and, further, do not consider the promotion or creation of a bond market one of the functions of the Federal Reserve System.

"c. We believe that there may come an opportune moment to put money into the market when that action will have a beneficial effect and feel that if, at such a time, our open market portfolio of Governments is excessive there may be hesitation to increase it.

"There is much more that might be argued, but I have endeavored to summarize briefly."

Mr. Platt then inquired as to whether or not the individual members of the Committee had any comments to make. "Governor Harrison stated that he represented the minority in the Committee's vote that no recommendation be made at the present time, that he represented unanimous views of the New York directors as well as his own and the officers of the New York bank that it would be preferable to continue purchases of Government securities up to, say, $25,000,000 a week for another two weeks, largely on the theory that business and commodity prices have not improved and that a good part of the difficulty at the present time is lack of purchasing power in various parts of the world which are not in a position to purchase or take up surplus commodities off the markets of the world. Because of this deficiency in buying power, prices have declined and this

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is reflected through decreased export trade in the principal countries which have products to export, such as England and America. With this in mind, everything possible should be done to revive buying power for our surplus products through the export of long time capital to those parts of the world where purchasing power has been curtailed. Purchases of Government securities, he said would do no harm and might do some good in reviving the bond market. There is no danger at the moment of speculative revival and past experience has always shown that whenever the System is buying Government securities the bond market becomes more active and stronger and, therefore, not being aware of any danger or disadvantages in the purchase of Governments at this time and having many precedents that the purchase of Governments is helpful to the bond market, the New York banks feels the System should make such purchases in the hope that they will facilitate through the bond market a better distribution of capital to points where buying power is now seriously curtailed.

"He stated that for these reasons the New York directors last Thursday expressed the view that the System should buy Government securities not to exceed $25,000,000 per week for the next few weeks, but since the majority of the Executive Committee of the Conference does not favor purchases at this time no recommendation is being made by the Committee.

"Governor Fancher stated that he favored the purchase of the $50,000,000 of Government securities purchased several weeks ago following the meeting here at that time and felt that the Federal Reserve credit then in the market perhaps should not be withdrawn. The opinion seemed to be, he stated, that bills were running off and perhaps the amount in which the System's holdings of bills were declining should be put back

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through the purchase of Government securities. On that basis, he said, he favored the purchase of securities and the amount purchased had about offset the decreased holdings of bills. He stated that member bank borrowings have fluctuated up and down. Rates have been further reduced at New York and some of the other banks, and it seems to him that the System could not do much more to help a bond market. Money is extremely easy and banks are finding a problem in how to place the surplus money which they have on hand. He expressed the opinion that they will first place it in short time securities and will finally go to bonds for the sake of earnings, which is going to revive the bond market.

"Governor Norris stated that the majority of the Executive Committee of the Open Market Policy Conference are substantially in agreement with the letter from Governor Calkins. The feeling of the Committee is, he said, that the principal characteristic of the present period of depression is falling commodity prices, and that an analysis will reveal the fact that in the case of most of the commodities in which price reductions have been most marked there is a specific reason having nothing to do with credit conditions or interest rates. He called attention to the fact that there is no evidence of any great accumulation of goods in this country, but that on the contrary inventories on the whole are lower than they were last year. The trouble, he said, is not so much over-production of goods, as over-development of productive capacity. He stated that he can not see any evidence that any responsible concern in this country has any difficulty in getting capital for any legitimate purpose and that there is a very serious question whether it is one of the functions of the Federal Reserve System to develop or foster the bond market, but granted that it is, the bond market which it is desired to

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foster at this time is a market for foreign rather than domestic bonds and he believes the reason there has been such a falling off in the volume of foreign issues in this country has not been due to credit conditions but to the doubt that has been aroused by public statements on the subject.

"Governor Norris further stated that at the meeting of his board of directors last week they had a long discussion on this subject. He said he had called the attention of his Board to the fact that the discount rate of the Federal Reserve Bank of Philadelphia was out of line with that of the Federal Reserve Bank of New York and out of line with the two guides which have always been accepted in the past - the acceptance rates and the open market rate for money. He stated that of the seven members present, five felt that no action which they could take either as regards open market operations or a reduction in the discount rate would have any effect whatever on the situation which is one for which the Philadelphia Bank is not responsible and can not help, and the only effect of a reduction in the discount rate would be to increase the margin of profit for those banks which are chronic borrowers at the Federal Reserve bank and would make it more difficult for the well managed banks to show any earnings at all. For these reasons, he stated, it was voted to make no change in the discount rate of the Philadelphia bank.

"Deputy Governor Paddock stated that at his directors' meeting last Wednesday the whole situation was gone over and on the question as to whether or not the Boston bank would follow the Federal Reserve Bank of New York by a reduction in the discount rate, the directors voted against a reduction. In the purchase of Government securities, he stated,

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he thought the feeling was just about the same and the majority of his directors would rather see things go along about as they are for a short time as there is no pressure for borrowing in the Boston District and money is available at reasonable rates.

"Governor Harrison stated that he did not want to leave the thought that there is any feeling in New York different from that expressed by the other members of the Committee that there is an adequate supply of short time credit available for business. That is not the difficulty today, he stated, and it has not been for months, the difficulty being a bad distribution of short and long time money. What his directors have had in mind, he said, has not been not so much to create more short time money but to facilitate a market through which long time capital could be distributed to those points where there is an admitted shortage of buying power. A plentiful supply of short time money at low rates is merely a means of facilitating this.

"Governor Norris then stated that the other members of the Executive Committee of the Open Market Policy Conference can not bring themselves to believe that a further purchase of Government securities would help, but feel that such purchase would be an interference with the natural effect at this time and would not be productive of any good, and might be embarrassing at the time when business starts to pick up, at which time the System would find itself with a large amount of Government securities and low discount rates. If it then began to mark up rates and sell securities, or both, it might check an incipient revival and if not would be accused no doubt of doing so or operating in that direction. He stated that as the majority of the members of the Executive Committee could not see any benefit to be derived from affirmative action, it was felt that no action is the safest course."

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Developments Relating to Open Market Operations and Discount Policy, late June-late September 1930

At the meeting of the Board on June 25, it was voted to approve a minimum buying rate of 1-3/4 per cent for the purchase of bankers' acceptances for the Federal Reserve Bank of New York and on June 30 the New York bank established the following schedule of effective buying rates on bankers' acceptances:

1 to 45 days	1-7/8 per cent
46 to 90 days	2 " "
91 to 120 days	2-1/8 " "
121 to 180 days	2-3/8 " "
Repurchase	2 " "

Letters from New York Bank to Board, June 27 and July 3. Under date of June 27, Deputy Governor Burgess wrote the Board as follows:

"There has been no increase in the holdings of government securities, either in the System Account or in the Investment Account of this bank, since my last letter to you on this subject dated June 19, 1930, the aggregate of these accounts being $337,300,000 and $111,428,200 respectively. . . .

* * *"

Under date of July 3, the following letter was received from Deputy Governor Burgess of the Federal Reserve Bank of New York:

"Since I wrote you last on June 27 the dominating influence on the open markets for both Government securities and acceptances has been the increased demand for reserve credit arising from June 30 window dressing and holiday currency demands. There have been very large transfers of funds from this district to other districts, and also a large withdrawal of currency, all of which have reduced the reserves of the member banks and compelled them to look about for funds to replenish these reserves. While borrowing was increased for a few days by about $50,000,000

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the banks have been unusually sensitive as to borrowing on the statement date and, as far as they could, have sought other means of obtaining Federal reserve credit. They fortunately had on hand a larger volume of bills than usual, many of which they sold to us or to the market, and they also unloaded some Government securities in addition to calling loans in the call loan market, which had the effect of raising the call rate to 3 per cent on Monday and Tuesday.

"The effect of these events on our operations in Government securities was mainly to bring us on July 1 $20,000,000 of Government securities under sales contract for dealers who were not able to secure funds outside at advantageous rates. This total has since been reduced to $13,700,000, and the chances are that it will be wiped out within a few days. Outright holdings of securities by this bank showed a temporary increase of approximately $6,000,000 for the week pending sales of securities to the Treasury for sinking fund account. The Treasury plans to purchase next week $25,000,000 Series A Treasury notes of 1930-32, all of which we now have on hand or under contract. The System special investment account showed no change for the week. . . ."

(Secretary's note: On July 3 with approval of the Federal Reserve Board, the Federal Reserve Bank of Boston established a rediscount rate of 3 per cent and the Federal Reserve Bank of Philadelphia a rediscount rate of 3-1/2 per cent on all classes of paper of all maturities.)

Letter from Harrison on desirability of resuming purchases. At the meeting on July 8, Vice Governor Platt referred to the following letter dated July 3, which Governor Harrison had sent to the Governors of all Federal Reserve banks and stated that while he has no definite information from anyone, there is some slight evidence of a change in mind in favor of

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the purchase of additional Government securities:

"We have already forwarded to you a preliminary draft of the minutes of the meeting of the executive committee of the Open Market Policy Conference held in Washington on June 23. As you will have observed from those minutes, a majority of the members of the committee voted that in their opinion it was not desirable at that time for the Federal Reserve System to undertake any further open market purchases of government securities. As a result of this action by the committee no recommendation was submitted to the conference as a whole, and while the views of the committee were reported to the Federal Reserve Board, no recommendation was put before them for consideration.

"As I reported at the meeting of the committee in Washington, our directors voted on June 19, after the completion of the purchase of the $50,000,000 previously authorized by the conference, that, in their opinion, further purchases in an amount of about $25,000,000 a week should be continued. I personally favored such purchases during the discussions in Washington, and our directors, at their meeting on June 26, reiterated their views with respect to the importance of a continuance of that program. In fact, they felt so earnestly the need of continuing these purchases of government securities that they have suggested that I write to you outlining some of the reasons why the Federal Reserve Bank of New York has for so many months favored having the Federal Reserve System do everything possible and within its power to facilitate a recovery of business.

"They do not feel that low discount rates or further purchases of government securities will of themselves fix commodity prices or restore business activity. There are too many other factors involved in the

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situation to expect that any such credit operations would, or could, alone accomplish these objectives. They do feel, however, that further purchases of government securities in circumstances such as the present, can do no possible harm and will likely accomplish some good.

"As they view the situation it is about this: The United States and most other countries of the world are in the midst of a severe business depression. The decline in business activity has been great as judged by almost every available index. Unemployment is serious. Commodity prices have suffered the most severe and rapid decline since the post-war deflation of 1921, and are now about 12 per cent less than a year ago. The decline has been most pronounced in the last few weeks. Profit margins are seriously cut, purchasing power has been reduced, and many people are facing unemployment and distress.

"While it is no doubt true that this depression is, in part at least, the result of causes quite unrelated to monetary conditions and clearly outside the control of the Reserve System, there are nevertheless some aspects of the situation with respect to which the Reserve System has a direct responsibility. Overproduction of certain basic commodities, both actual and potential, has no doubt played a large part in developing present conditions. On the other hand, it is also true that underconsumption, due to credit restrictions and high rates during 1928 and 1929, a stoppage of the flow of capital, and an interruption of economic activity in many sections of the world, has also been an important factor in the present depression. But whether the present depression is due more to overproduction or more to underconsumption, it must be agreed that there is a surplus of many basic commodities awaiting distribution, commodities which are wanted and needed in many sections of the world which have not

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the power to purchase them. This surplus of unsold goods may not, in many cases, be great, but unfortunately the mere existence of an unsold surplus hanging over the market is a dominant factor in the course of the price of any commodity. Anything, therefore, that can be done to stimulate economic activity and thus provide a market for that surplus, however great or however small, will be a steadying influence and a vital factor in the recovery of prices and business.

"Our directors have believed, therefore, that whatever steps the Reserve System may take, whether through discount rates or open market operations, to facilitate a more active and stronger bond market through which capital funds may be made available for new enterprise or distributed to those parts of the world where purchasing power is now seriously curtailed, should be taken promptly and courageously. This is especially true, they feel, if in the conditions as they now exist there can be said to be no substantial risk incident to such a course. Stimulating an active and strong bond market will run very little danger of encouraging unnecessary borrowings by those concerns which already have surplus products or ample capacity to produce. On the other hand, such a course will make available necessary capital funds to those who now lack capital and will thus do much to revive normal economic conditions, restore purchasing power and tend to distribute our surplus goods into fields where they are so urgently needed.

"During 1928 and 1929 the diversion of world credit into the speculative markets very severely restricted certain types of new financing through the bond market. Money became difficult to obtain for building operations and other new enterprises in many markets. New foreign borrowings in this market were greatly reduced and foreign buying

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from us is in consequence now reduced. Indeed, current figures relating to our foreign trade indicate a drop in the past four or five months of over 20 per cent as compared with last year. Even if we take into account the decline in commodity prices, the amount of goods being exported from the United States to world markets is now substantially less than last year. All the evidence indicates that we have surplus goods to sell and that there are other parts of the world that are in need of those goods. To stimulate their distribution to the points where needed becomes a matter of the most vital importance if the decline in commodity prices is to be checked and business is to be restored to normal activity.

"In previous business depressions recovery has never taken place until there has been a strong bond market through which new enterprise requiring long time capital may be financed. So while there is no considerable demand from business for short time money at the present time, and short time money may be said generally to be plentiful and cheap in many sections of the country and other parts of the world, there is nevertheless a large demand for long time capital for new undertakings. The bond market has in the past several months been able to absorb a very considerable volume of these new issues but it is not yet vigorous nor is it able to supply all of the funds which legitimate business, both at home and abroad, so much demands.

"This appears to our directors to be a situation in which the Reserve System has some responsibility. . . . whenever the Federal Reserve System embarks upon a program of purchasing government securities, the bond market has become more active and stronger. When the System buys securities, short time money becomes more plentiful and cheaper. It also becomes less profitable in comparison with long time money, and it has been

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demonstrated in the past that in such circumstances, through a further increase in the reserves of member banks money will be made available for the bond market or shifted to the bond market from the short time market or from other investments less profitable than bonds.

"Purchases of securities which have been made thus far have aided in relieving the member banks from the pressure of indebtedness at the Reserve Banks and in a measure have provided the market with surplus funds available for use in the bond and mortgage market. But to a large extent these purchases which have been made thus far have been offset by declines in rediscounts and in the bill portfolios of the Federal Reserve banks so that the total of Federal Reserve credit has shown a net decline even making allowance for gold imports. It has been our belief, therefore, that purchases of government securities should be continued to the extent necessary to keep some supply of surplus funds in the money market as a stimulus to the bond market, at least until such time as there may be some evidence of a recovery in business. This may not involve any very large amount of further purchases, but our directors feel that additional purchases at the present time are not only desirable but necessary if the System is to do its utmost for the accommodation of business and trade.

"Even since the meeting of the committee on June 23 there has been a further seasonal tendency for the bill holdings of the System to diminish and some tendency for discounts to increase, though this movement was interrupted by the unusual demand for funds incident to the end of the month and holiday currency requirements which led to increases of both bills and discounts and brought the total of reserve bank credit outstanding to $1,060,000,000. The events of this period have illustrated the extreme sensitiveness of the banks at present to any indebtedness at the Reserve

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banks. Even the relatively small amount of additional borrowings which New York City Banks found necessary was accompanied by an increase of one per cent in the call loan rate. It is thus evident that an even smaller amount of borrowing under present conditions is as effective a restraint as substantially a greater amount was a year ago. This is normally a season when the bill holdings of the System diminish and when the extra demand for funds for crop moving begins to be felt. It is, therefore, a time when there is need for us to be particularly alert to avoid increases of rediscounts, even apart from a more general policy of operating positively in supplying the market with surplus funds.

"So while there may be no definite assurance that open market operations in government securities will of themselves promote any immediate recovery, we cannot foresee any appreciable harm that can result from such a policy and believe that the seriousness of the present depression is so great as to justify taking every possible step to facilitate improvement.

"This letter is being written largely because our directors feel that it is fair to them and to the policies which they have pursued so earnestly in the past several months, to give you some idea of the reasons which have prompted not only our rate reductions but our advocacy of further purchases of government securities. I hope you will please accept it in that spirit, and with the understanding that our directors feel keenly the need for a continued and frank exchange of views among the Federal reserve banks and the Board, especially at such a critical time as the present. I hope you will please feel free to show this letter to your officers or to your directors and to write us equally frankly what may be your own views in the hope that we may thus facilitate a common approach

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to our present problem. I am taking the liberty of sending a similar letter to the governor of each other Federal reserve bank and a copy to the Federal Reserve Board."

Letters from New York Bank to Board, July 11-31. Deputy Governor Burgess of the Federal Reserve Bank of New York advised the Board as follows under date of July 11:

"The status of the holdings of Government securities, both in the System Account and in the Investment Account of this bank, is practically the same as when I wrote you last on July 3, 1930; in fact, the only change has been a reduction of $5,000,000 in the Government security holdings of this bank, due to sales to the Treasury for the sinking fund of securities held temporarily in our account. . . ."

(Secretary's note: With the approval of the Board, on July 12 the Federal Reserve Bank of Atlanta established a rediscount rate of 3-1/2 per cent on all classes of paper of all maturities.)

On July 17, Deputy Governor Burgess wrote the Board as follows:

"Total holdings of Government securities, both in the System Account and in the Investment Account of this bank, are unchanged from last week. Sales contracts against Government securities have now been entirely paid off, accounting for the decrease of 13 million dollars shown for total government securities in the System statement. . . ."

(Secretary's note: On July 18, with the approval of the Federal Reserve Board the Federal Reserve Bank of Richmond established a rediscount rate of 3-1/2 per cent on all classes of paper of all maturities.)

On July 21 the Federal Reserve Bank of New York established the following schedule of effective buying rates on bankers' acceptances:

1 to 75 days	1-7/8 per cent
76 to 90 days	2 " "
91 to 120 days	2-1/8 " "

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121 to 180 days	2-3/8 per cent
Repurchase	2 " "

On July 24, Deputy Governor Burgess advised the Board as follows:

"Since my last letter on this subject to Mr. Platt, dated July 17, 1930, the total holdings of Government securities in the System Account, also in the Investment Account of this bank, are unchanged as to total, and we have held no Government securities under sales contract for some time. . . ."

The following letter was received from Deputy Governor Burgess under date of July 31:

"There is very little to report with regard to Government securities as there have been no changes in the total holdings either in the System Account or in the Investment Account of this bank since I wrote you on July 24, and there have been no purchases under sales contract agreement. . . ."

Action during August. At the meeting of the Executive Committee on August 6 the Governor reported "that he has been advised by the Chairman of the Federal Reserve Bank of New York, which advice will be confirmed by wire, that he had, on behalf of the Open Market Policy Conference discussed with the Governor, Chairman, or Deputy Governor of the various Federal reserve banks the question of the advisability of further purchases of Government securities and that the banks, in order to partially offset recent exportations of gold, favor the purchase of additional securities. The Open Market Policy Conference requests, Governor Young stated, approval by the Board of the immediate purchase of $25,000,000 of Government securities for System Account, with the understanding that

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the situation will again be reviewed during the early part of next week." Governor Young also explained that he had communicated with absent members of the Board, with the exception of Mr. Miller, and that they favored the proposed purchase. Following Governor Young's statement it was voted to authorize the purchase of $25,000,000 of Government securities during the current week, it being the understanding that the situation would be reviewed the following week as to the desirability of making further purchases.

Under date of August 7, Deputy Governor Rounds wrote the Board as follows:

"In the absence of Mr. Burgess I am writing you regarding open market operations. There have been no changes in the total holdings either in the System Account or in the Investment Account of this bank since Mr. Burgess' letter to you dated July 31, 1930, and there have been no sales contracts made against Government securities.

* * *

"As you already know, arrangements were made yesterday for the purchase of an additional $25,000,000. of Government securities for System Account for delivery today. This increase will of course not be reflected in this week's statement."

(Secretary's note: With the approval of the Board the Federal Reserve Bank of St. Louis established a rediscount rate of 3-1/2 per cent on all classes of paper of all maturities effective August 7 and the Federal Reserve Bank of San Francisco established the same rate effective August 8.)

At the meeting of the Board on August 8, the Governor was authorized in the absence of a quorum of the Board to approve discount rates down to 3 per cent if and when voted by any Federal Reserve Bank, and down

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to 2 1/2 per cent if and when voted by the Federal Reserve Bank of Boston. He was also authorized in the event of further recommendations by the Open Market Policy Conference for approval by the Board of additional purchases of government securities, to confer by telephone with absent members of the Board, and if a majority of the Board was in favor of the proposed open market operation, to approve additional purchases of securities as recommended by the Conference.

Under date of August 14, the following letter was received from the Deputy Governor of the Federal Reserve Bank of New York:

"During the statement week ended last night, the holdings of government securities in the System Account have been increased $25,000,000, this being the purchase referred to in my letter of August 7, 1930. . . ."

(Secretary's note: With the approval of the Federal Reserve Board, the Federal Reserve Bank of Kansas City reduced its rediscount rate on all classes of paper of all maturities, effective August 15, from 4 per cent to 3 1/2 per cent.)

On August 21, Deputy Governor Rounds of the Federal Reserve Bank of New York wrote the Board as follows:

"The holdings of government securities in the System Account have shown no change since my last letter dated August 14, 1930. . . ."

Under date of August 28, the following letter was received from Deputy Governor Rounds:

"The total holdings of government securities in the System Account remain the same as when I wrote you last on August 21st, 1930, namely, $402,300,000. During this period some changes were made in the issues with a view to shortening the maturities. The holdings of this bank likewise remain unchanged, with no sales contracts against government securities. . . ."

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Authorization for further purchases, September 1930. At the meeting of the Federal Reserve Board on September 3, the following telegram from the Secretary of the Open Market Policy Conference was considered:

"In view of the desirability of maintaining the present easy money position and the possibility that seasonal requirements and gold exports may bring about a change in the situation if no action is taken a majority of the members of the Open Market Policy Conference recommends the authorization of a purchase of Government securities up to $50,000,000 with the understanding that this authority is to be exercised only if necessary as a supplement to bill purchases in offsetting seasonal demands for credit, gold exports, or other influences towards firmer money which might interfere with the continuance of present money conditions. We should appreciate your advising us of the action of the Board on this recommendation."

Consideration was also given in this connection to the following letter, dated August 29, from Governor Calkins, regarding the procedure followed by the Open Market Policy Conference in determining upon the recommendation contained in the telegram quoted above:

"Mr. Case (apparently in the absence of Governor Harrison) called this morning and explained that they wished to have approval of their proposal to buy Governments when and if they deemed it expedient to do so in the near future.

"He told me that eight of the governors had assented, three were absent, and, therefore, I presume that mine will be the only negative expression.

"On the last occasion when money was put into the market Mr. Case

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also called on the telephone and discussed the matter, and I said that I would assent in that instance but felt that before further operations there should be a conference. I do not believe that it is possible to reach a reasoned conclusion without discussion, and it is obviously impossible to have adequate discussion over long distance telephone, discussion that involves twelve or more individuals.

"My own impression at this moment is that there is no reason to expect the injection of additional credit into an already redundant situation to bring about the effects desired, and while I think most of us would feel that considerable gold exports should be at least partly offset by additional investments, I am not yet convinced that it will be expedient for us to put money into the market on every occasion on which gold is exported or to put money into the market to the extent to which gold is exported.

"However, I am writing this letter not to argue the entire field over, but to express again my view that the present procedure which, as I see it, is exactly contrary to the procedure contemplated when the Open Market Policy Conference was set up, is not the right procedure, and that the Open Market Policy Conference should adopt an affirmative or a negative policy effective until cancelled or reversed after adequate discussion and consideration."

Members of the Board expressed agreement with Governor Calkin's opinion regarding the procedure followed by the Open Market Policy Conference but it was the consensus of opinion that in this case, due to the fact it would soon be necessary to call the Governors of the Federal Reserve Banks to Washington for their regular Fall Conference, it would not be desirable to call a special meeting of the Open Market Policy Conference at

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that time. It was finally voted to grant the authority requested and the following letter was accordingly transmitted to the Secretary of the Conference:

"At a meeting of the Federal Reserve Board today consideration was given to your telegram of September 2nd, requesting, on behalf of the Open Market Policy Conference, authority for the purchase of Government securities up to $50,000,000, it being stated in your telegram that this authority would be exercised only if necessary as a supplement to bill purchases in offsetting seasonal demands for credit, gold exports or other influences toward firmer money, which might interfere with the continuance of present money conditions.

"The Board voted to grant the authority requested even though in this instance the procedure followed by the Open Market Policy Conference was not in harmony with the resolutions establishing it, under which a meeting of the conference should have been held for free and full discussion of the proposed action among the members of the Conference and with the Board. However, the Board today determined to call the fall conference of governors beginning Monday, October 6th, and in view of this fact and the further fact that open market matters have been so fully canvassed during recent months, it did not seem desirable to ask the governors to come to a special meeting of the Open Market Policy Conference at this time, although the Board would not wish a precedent to be established. It is understood, however, that the whole question of open market policy will be reconsidered at an open market meeting to be held at the time of the governors' conference."

(Secretary's note: With the approval of the Federal Reserve Board, the Federal Reserve Bank of Dallas, on September 8, reduced its rediscount rate, effective

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September 9, from 4 per cent to 3 1/2 per cent, and on September 11, the Federal Reserve Bank of Minneapolis made a like reduction in its rediscount rate, effective September 12.)

Statement on availability of credit for marketing of crops, September 24. On September 23, a special meeting of the Federal Reserve Board with the Chairmen and Governors of the Federal Reserve Banks of Richmond, Atlanta, St. Louis, Kansas City, and Dallas, was called for the purpose of discussing with those representatives crop conditions, particularly as regards cotton, and the question of credit facilities for the marketing of crops. It was the sense of the meeting that the Federal Reserve Banks appeared to be operating satisfactorily, showing a willingness to lend money and having the resources to do it, but that a public statement should be issued emphasizing to member banks the readiness of the Federal Reserve Banks to assist them in handling the movement of crops and to reassure the producers of the country's staple commodities that the reserves of the Federal Reserve System were available to meet their legitimate needs.

Discussion was also had at this meeting regarding the question of the discounting of commodity paper bearing the endorsement of nonmember banks, but the consensus of opinion was that no special action should be taken in that direction; also, that a special discount rate on commodity paper, in view of the existing low level of discount rates, would not be effective, although if discount rates should tend to rise the establishment of special rates on commodity paper should be considered.

The matter of issuing a public statement as suggested at the meeting on September 23 was pursued further at the meeting of the Board with the Governors and Federal Reserve Agents on September 24, with the

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result that the following statement was released to the press:

"At a preliminary conference held by the Federal Reserve Board in connection with the regular fall meeting of the governors and chairmen of the twelve Federal reserve banks, a comprehensive review was made of the agricultural, general economic and credit situation throughout the country. Being the season of usual marketing of the country's crops, reports were made with particular reference to the status of agricultural staples in each of the Federal reserve districts and there was special discussion of the conditions affecting their marketing and financing.

"The Board was assured and satisfied that in each of the twelve Federal reserve districts ample credit facilities are available for financing the marketing of the crops, and that such facilities are being provided by the banks and other agencies concerned in the orderly marketing of agricultural commodities. The twelve Federal reserve banks through rediscounts for their member banks, loans to Federal Intermediate Credit Banks on agricultural paper of cooperative associations and purchases of bankers' acceptances covering agricultural commodities, are making their resources available for the marketing of the country's crops at the lowest rates in the history of the System.

"It was the view of the conference that the extension of credit to support the orderly marketing of crops - at all times an important function of the Federal reserve banks - is of special importance at the present time. To that end, the Federal Reserve Board was assured that the Federal reserve banks will continue their efforts to acquaint their communities with the facilities of the System and the disposition of the management of those banks to meet the problems connected with the marketing of the crops."

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Meeting of September 25, 1930

Consideration of procedure. At the meeting of the Open Market Policy Conference held in Washington on September 25, Governor Harrison referred "to the discussion which had taken place the day before at the conference of governors with respect to the procedure followed by the open market policy conference since the last meeting of the conference in June, and suggested, as had been the sense of the governors conference, that the procedure to be followed by the open market policy confernce should be one which contemplates the formation of a general System policy by the whole conference with a mandate to the executive committee to execute the policy so as to attain the objectives agreed upon by the conference. Such a procedure would avoid the necessity of calling a new meeting of the whole conference except at such times as consideration of a change of general policy appeared to be necessary either to the Board or to the members of the conference. At the same time it would empower the executive committee to take such steps as might be deemed necessary by it to execute the policy without the need for calling a meeting of the whole conference whenever it might be necessary to buy or sell securities in order to carry out the policy agreed upon. While no formal vote was taken it appeared to be the sense of the conference that this would be the most practicable procedure to be followed in the formation and execution of open market policies of the System.

"Governor Harrison reviewed the status of foreign accounts with the Federal reserve banks, and pointed out the changes which had taken place since the last meeting of the conference. He also discussed the general position of the various central banks of issue abroad, calling attention to the fact that the gold reserves of most of those banks have not only

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increased in percentage but in actual amount during the past year. The increase in the reserve percentage of most of these foreign institutions is due not only to an increase in the actual gold supplies of the respective banks but also to a very substantial decrease in note and deposit liabilities, the decline ranging in most cases from 25% to 50% from a year ago. He pointed out that this, of course, reflected the depression in business and trade which exists in those countries and throughout the world. This depression was further evidenced by the figures which were presented to indicate the substantial decline in both the export and import trade of most every one of the principal countries in Europe, South America, and the Far East."

Following Governor Harrison's statement the following preliminary memorandum, submitted by the Chairman, was considered:

Preliminary memorandum of Chairman. "For the past year this country has been in a business recession. At first it was hoped that the recession would be relatively brief reflecting the temporary disturbance of a stock market inflation and decline. But in recent months the recession has extended until, even if the bottom has now been reached, it will rank as one of the country's major business recessions both in extent and duration. The duration of the recession has already been as long as that of any recession since the 1880's. The causes of the recession are deep-seated and broad in their scope and involve, in part at least, a serious shortage of working capital and curtailment of purchasing power in a number of countries, and some overproduction in basic world industries accompanying under consumption. The recession has been accentuated by the failure of a number of attempts at arbitrary price control. As usual in recessions, the effects of the basic difficulties have been heightened by

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a psychology of depression and pessimism. The end of the recession does not yet appear by any concrete evidence to be definitely in sight though there have been of late some indications of a check in the downward movement.

* * *

"A major disturbing factor in this business recession has been a decline in commodity prices much more severe than has usually accompanied recessions in the past. Not a little of the severity of the depression all over the world is to be ascribed to this factor. . . .

"Federal Reserve Open Market Policy

"As soon as the turn in business had been definitely signalized by the break in the stock market last November the Reserve System promptly reversed its policy from one of pressure to one of relaxation. . . . Increases in [System] holdings [of Government securities] were accompanied by a reduction in discounts of member banks at the Reserve banks. . . . Thus member banks were relieved from the pressure of large Reserve bank debt and put in a position to lend more freely to their customers. At the same time the bond market was relieved from the pressure of sales by banks which had been resorting to sales of bonds to meet their obligations. By the spring and summer of 1930 banks found themselves with surplus funds with which to buy amounts of bonds sufficient to compensate for sales in 1928 and 1929. Both money rates and the bond market felt the effect of these changes. Commercial paper rates reached the lowest levels since 1915. Bond prices rose to the highest points since 1928.

"New Security Issues

"New issues of bonds for the first eight months of 1930 compare favorably with those for previous years. . .

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"The types of issues which account for the increase of 1,448 million dollars in new bond issues over the first eight months of 1929 are shown in the following table:

	Change from 1929 in millions of dollars
Public utility	+ 825
Railroad	+ 346
Other corporate	- 255
Total corporate	+ 916
Municipal	+ 144
Foreign	+ 388
Grand Total	+1,448

"The increase in new bond issues has been reflected in a large increase in construction awards for public utility, railroad, and government work which has partly offset the severe decline in residential construction.

"Gold Movement

"A further effect of the change in money conditions in the United States was a reversal of the gold movement from net imports to net exports. As foreign balances were withdrawn in November and December 1929 considerable exports took place. There ensued, however, a series of unusual imports from Japan and South America so that there was a considerable net import movement until July 1930, when exports were again resumed.

"Bank Credit

"The immediate effect of the stock market crash was to throw upon the banks in principal centers the burden of supplying loans on securities formerly supplied by 'other' lenders. This movement in fact continued for a number of months. The reporting member banks in principal centers on this account showed an increase not representing any new extension of credit to business and not shared by banks outside the

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principal centers. Other loans, largely commercial, have declined considerably and bank investments have increased in 1930. The net result has been that banks in principal centers, which were forced to increase their security loans show an increase as compared with last year in their total loans and investments. Banks outside principal centers show no increase but rather a decrease. Generally speaking the banks have pursued an extremely cautious lending and investment policy seeking to keep themselves in the most liquid position. This tendency is illustrated by the position of the New York City banks with regard to surplus reserves. Ordinarily these banks never allow a surplus of reserves to continue from week to week. But during this past summer the New York banks have had surplus reserves in a number of weeks . . . The surplus, however, has not been consistently maintained.

"Mechanics of System Security Operations

"Only a part of the security purchases shown in chart 3 represented System operations as shown by the following list of open market decisions.

Sept. 24, 1929	-	Open market committee recommended purchases of $25,000,000 a week if necessary to prevent increase in discounts. Board approved October 1. No purchases made at that time.
Oct. 25 - Nov. 14	-	$186,000,000 of securities purchased by Federal Reserve Bank of New York of which $75,000,000 were transferred to System account. $25,000,000 purchased directly for System account.
Nov. 12	-	Open market committee recommended purchases up to $200,000,000 if necessary to reduce discounts. Board approved.
Nov. 27 - Jan. 1, 1930	-	$155,000,000 purchased under November 12 authority.

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Jan. 8 and 9	- Open Market Committee decided 'no open market operations in government securities necessary at that time either to halt or expedite the trend of credit.'
March 5 - 14	- $50,000,000 purchased by New York Reserve Bank with approval of Reserve Board, transferred to open market account and apportioned to banks desiring participations.
March 24	- All governors meeting informally as open market conference decided there was no need for further purchases at that time.
May 21	- Open Market Conference decided to make no recommendation but indicated it would be prepared to act on recommendation of executive committee, if occasion arose.
June 3	- Executive Committee and conference agreed by telephone to purchases of $25,000,000 a week for two weeks. Board approved.
June 4 to 11	- $50,000,000 purchased for System account.
June 23	- Executive committee decided against further purchases at that time.
August 7	- Executive committee and conference agreed by telephone to purchase of $25,000,000 to offset partially gold exports. Board approved. $25,000,000 purchased on August 7.
August 28 to Sept. 3	- Executive committee and conference agreed by telephone to purchases of $50,000,000 if necessary to maintain easy money conditions and avoid any firming due to seasonal or other causes. Board approved. Authority not exercised.

"Seasonal Prospects

"Aside from gold movements and other causes which cannot now be foreseen the principal influence upon Federal Reserve credit in the next few months will be the seasonal requirements for additional currency and bank credit. . . . The actual [increase so far this year] has lagged behind

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the customary requirements because of a smaller currency demand accompanying reduced payrolls.

* * *

"On the average, about half of the September increase in requirements [in the period 1922-29] has been met through bill purchases and half through other Reserve Bank credit, chiefly discounts for member banks. This moderate increase in member bank discounting in September has ordinarily been accompanied by slightly firmer money conditions, which continued into the first half of October. During the months of October and November as a whole, however, the average increase in bill holdings has been approximately sufficient to meet the increase in total Reserve Bank credit required in those months. In December the demand for Reserve Bank credit, caused chiefly by the holiday currency requirements, has tended to exceed materially the increase in bill holdings, and has therefore resulted in increased member bank indebtedness. This December increase in indebtedness, however, is regarded as a normal development and does not ordinarily have much effect on money rates, except, perhaps, for somewhat higher call loan rates.

"It was to avoid the restraining influence of even a moderate increase in bank indebtedness and accompanying firmness in money conditions, whether due to seasonal changes, gold exports, or other causes, that preparations were made to supplement bill purchases with the purchase of Government's in the early part of September, if such action appeared necessary to maintain the status quo. Because of the smaller demand for Federal credit this year no purchases of Government securities have as yet been required to maintain the credit situation in about its present position. Seasonal needs have thus far been provided for by increase in the

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bill holdings of the Reserve Banks. Whether bills will continue to come to the Reserve Banks in sufficient volume to meet additional needs for Federal Reserve credit depends both on the total amount of bills drawn and the conditions governing the proportion offered to the Reserve Banks.

"At present the amount of bills outstanding is considerably larger than it was a year ago, but, . . . the increase over last year has been lessening due partly to lower commodity prices and smaller foreign trade. The volume of export and import bills has been showing an unseasonal decline.

"Two conditions favor the Reserve System's getting a fair proportion of seasonal drawings of bills. First, the yield is now so low that there has been some tendency for foreign banks to shift to other means of employing their funds in this market, and second, large banks are now holding a considerable volume of bills and when there is any tendency towards firmer money conditions some of these bills come into the market or are offered to the Reserve Banks. Even so, however, it is not now possible to predict whether sufficient bills will come to the Reserve Banks to meet seasonal or other needs and maintain present money conditions."

Action of Conference. Governor Harrison then stated that it was in order, on the basis of the facts submitted in the preliminary memorandum, as well as in the discussion of all of the governors, to consider the formation of an open market policy for the System, it being pointed out that at the present time the conference has authority to purchase not to exceed $50,000,000 in order to maintain the present easy money position. The question before the conference was whether there should be a change in this policy and if so what that change should be.

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"Governor McDougal stated that he believes it to be important that the executive committee should have power to operate, that is, authority both to buy and sell government securities, when necessary. He added, however, that in his opinion money conditions in the principal centers are now too easy and that this was probably largely due to the operations of the Federal reserve banks in the open market, but that he would not at the moment favor the sale of any government securities. He felt nevertheless that it might be advisable to allow some of the System's holdings of bills to fall off. Governor Young stated that this could probably be done only by increasing the acceptance rate. Both Governors McDougal and Norris felt that there might be some advantage in a slight increase in the bill rate. Governor Harrison mentioned, however, that any such action would necessarily have a tightening influence and that such action should be made dependent entirely upon whether or not the System was to agree upon a general firming money policy. Governor Norris, after a brief discussion of his views with regard to open market policy, read to the conference the following memorandum which he had prepared and which he stated had been approved by his directors:

"'The Directors and officers of the Federal Reserve Bank of Philadelphia find themselves so much out of accord with what appears to be the sentiment of the other Banks and of the Board as to the policy which the System should pursue at the present time, that they deem it proper to state their own view of the situation.

"'We have always believed that the proper function of the System was well expressed in the phrase used in the Tenth Annual Report of the Federal Reserve Board - "The Federal Reserve supplies the needed additions to credit in times of business expansion and takes up the slack in times

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of business recession." We have therefore necessarily found ourselves out of harmony with the policy recently followed of supplying unneeded additions to credit in a time of business recession, which is the exact antithesis of the rule above stated.

"'We realize that there are emergencies and exceptional combinations of circumstances when it is the part of wisdom to abandon even the best of rules, but we cannot see that this is one of those cases, or that a continuation of the present policy can be productive of anything but harm.

"'If we understand the reasoning correctly, the policy of buying government securities is justified by some argument as this - We are in a period of depression characterized by falling commodity prices and a deplorable volume of unemployment. This condition cannot be corrected without an increase of building activity. Building activity will be brought about by low rates for long-time loans. Low rates for long-time loans will only come with a strong and active bond market. Therefore we should bring about this condition of the bond market by making short-time credit so cheap that banks and investors will be driven to the bond market to utilize their funds.

"'It is admitted that the conditions we seek to correct are world-wide. It must be admitted also that the decline in commodity prices is almost wholly the result of over-production, which is evident not only in wheat, cotton, coffee, rubber, sugar, copper, cement, coal, and automobiles, but in various other commodities, some agricultural and some industrial. As to most of these commodities, the difficulty cannot be charged to "under-consumption." The uses of rubber, cement, and copper have been continually increasing, and the world's per capita consumption

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of sugar and coffee is probably larger than ever before in history. This over-production did not manifest itself until a year ago, because, under the stimulus of instalment selling and an unreasoning belief in long-continued and unprecedented prosperity, over-buying kept pace with over-production. The consequences of such an economic debauch are inevitable. We are now suffering them.

"'Can they be corrected or removed by cheap money? We do not believe that they can. We believe that the correction must come about through reduced production, reduced inventories, the gradual reduction of consumer credit, the liquidation of security loans, and the accumulation of savings through the exercise of thrift. These are slow and simple remedies, but just as there is "no royal road to knowledge," we believe that there is no short cut or panacea for the rectification of existing conditions. We do entertain, however, the belief that the declines in commodity prices and in employment have about run their course, and that the foundations for business revival have already been laid.

"'Let us take up, first, the particular argument advanced by those who advocate cheap money as a cure - that it will stimulate construction. Is a stimulation of construction desirable? If so, what kind of construction? The only division of the building industry that shows any sharp decline is residential construction. The trend of urban living is away from the individual house to apartments. In most, if not all, of our large cities, one-family houses are very unsalable, and sheriff's sales are multiplied. At the same time there is a large percentage of room vacancy in hotels and apartment houses. It seems to us that a stimulation of residence construction would be a stimulation of what is already over-supplied, and would simply be inducing people to go into what would

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prove to be disastrous ventures.

"'The railroads and other public utilities are spending money freely in electrification, removal of grade crossings, new terminals, and in all directions except equipment. It is not likely that any large expenditures for that purpose will be made until car-loadings increase. It certainly is not wise to encourage any extensive construction of new industrial plants, or enlargements of existing plants, when production in most of the major lines is running at from 50% to 80% of present capacity.

"'Taking the broader view, we are in accord with the opinions recently expressed by financial writers, one of whom we see quoted as saying "An abundance of funds for business purposes will stimulate trade recovery when the time is ripe for such a development; but it cannot, by itself, go very far toward converting depression into expansion," while another says "Cheap money will not induce manufacturers and merchants to increase their borrowings, or enlarge their inventories in an unsatisfactory business period. Cheap money is a stimulant, and also an intoxicant, that may have temporary effect, but a headache will follow if the dose is large enough, and persisted in. It encourages over-borrowing by cities, and loans on securities or real estate by individuals."

"'At all events, the cheap money policy has now been persisted in for nearly ten months, during which period the call-loan rate has been driven down from 6% and over to 2%; the time-money rate from 6% to 2 1/2%; the commercial paper rate from 6% to 3%; and the rate on acceptances from 4 1/2% to 1 7/8%; and there has been an advance of nearly 6 points in the average bond price to the highest of the year. Insofar as this advance is the result of savings and a reaction from the 1929 theory that equities

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were better investments than obligations, it is wholesome. To whatever extent it may be the result of the artificially and abnormally low interest rates which we have been instrumental in bringing about, we believe it to be unwholesome and - like all artificial interferences with natural laws - fraught with potentialities of danger.

"'None of these things has brought about any reversal of conditions. They have doubtless avoided greater evils that might have occurred, but it is our judgment that they have been carried too far and too long. It is significant that a recent increase in brokers' loans was accepted as "bullish" news, being interpreted as evidence that the public was coming back into the stock market. We believe that the present abnormally low rates for money are regarded by the public as evidence that no business is being done, and that no one has any use for money; and that some hardening of rates would be accepted as an indication of a revival of business activity.

"'Our objections to recent Federal Reserve policy, however, are positive as well as negative.

"'This policy has interfered with the operation of the natural law of supply and demand in the money market, and has created artificially low interest rates, and artificially high prices for government securities. It is open to the same objections which the Treasury urged in 1922 to the purchases of governments which the Federal Reserve Banks were making at that time. It is an injustice to our member banks. It has resulted in making open market operations usurp the discount function, and tends to foster the regrettable impression that there is some element of impropriety in borrowing by member banks. It makes our discount rates wholly nominal and ineffective, and finally, and perhaps most important of all, as the

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result of injecting a large amount of unasked and unneeded Federal Reserve credit into an already glutted money market, we find ourselves with over 600 millions of governments on hand, the bulk of which must ultimately be disposed of. This compares with a previous high of 592 millions (monthly average) in December, 1927, and a low of 73 millions in November, 1921. This previous high was part of a plan which looked to the stabilization of European currencies, and included provision to check the inflation which it was feared would follow. We do not undertake to say how much Federal Reserve credit should be in use today, but we do hold to the belief that a substantial part of it should be the result of a demand expressed in borrowing by member banks, and used in cooperation with those banks. Less than one-sixth of it is of this character today.

"'The suggestion has been made that we should be prompt to "go into reverse," and dispose of these governments when business picks up. This is a complete and literal reversal of the policy stated in the Board's Tenth Annual Report, already quoted. We have been putting out credit in a period of depression, when it was not wanted and could not be used, and will have to withdraw credit when it is wanted and can be used. Moreover, it is not difficult to imagine the caustic comments which will probably be made when this reverse policy is inaugurated, and credit is withdrawn just as commerce and industry begin to have use for it.'

"Governor Fancher said that while credit and money rates were very easy in the larger cities in his district and in his opinion perhaps a little too easy, he did not think that now is a time to sell government securities. Governor Calkins in summarizing the situation said that he would not be in favor of any further easing at this time nor would he be in favor of any tightening, that while money rates are now very easy,

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nevertheless it was his judgment that this is not the time to change the System policy and that he favors maintaining the status quo. Mr. Peple said that he and Governor Seay, who could not be present at the conference, were in substance in favor of the views expressed by Governor Calkins. Governor Geery agreed with Governor Calkins, but said that he would prefer to see member banks borrow a little more from the Federal reserve banks before any purchase of securities was undertaken. Governor Young stated that, in his opinion, credit conditions are very easy but that this is no time to attempt any change, that he favors maintenance of the status quo, and that in order to execute such a policy he feels that the System should be in a position either to buy or sell securities. It was his judgment, however, that there would be no real opportunity to sell securities until the turn of the year when the normal return flow of credit and currency would perhaps afford appropriate opportunity for some sales of securities. Mr. Worthington stated that Governor Bailey was of the opinion that some action toward firming would be wise when possible but that the question of time was the important factor and that the turn of the year would probably be the right time to take such action. Governor Harrison stated that he was in agreement with what appeared to be the opinion of the majority of the members of the conference, that quite regardless of the past, the present policy of the System should be to maintain the present easy money position in the principal money centers and that while the System should be prepared to buy or to sell government securities in order to maintain that position, nevertheless there appears to be no reason at the present time either to buy or to sell. He then outlined a report with recommendations which he submitted for the consideration of the conference and after some discussion (during the course of which Governors Talley and Black

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rejoined the meeting), the open market policy conference voted to approve the following report:

"'The Open Market Policy Conference has considered the preliminary memorandum submitted to it by the chairman and has reviewed at length general business and credit conditions.

"'In view of the continued severe depression in business activity, trade, and commodity prices in this country, as well as the rest of the world, it is the sense of the conference that it should be the policy of the System, so far as possible, to maintain the present easy money rate position in the principal money centers, it being the opinion of the conference that under present conditions no further easing of such money rates would be advisable and that no firming of such rates would be desirable whether because of seasonal requirements, gold exports, or other causes. It is, therefore, recommended that the executive committee be authorized, if necessary, to supplement bill purchases by the purchase of government securities in the event that the seasonal demand for Federal Reserve credit, gold exports, or other factors should tend unnecessarily to tighten present money rates, and that in the event that any conditions should develop which would require sales of government securities to execute this policy, the executive committee should be authorized to make such sales. It is understood, however, that if the committee should have to buy or sell more than $100,000,000 of government securities to maintain the status quo, new authority should be procured in accordance with the prescribed procedure.

"'It is recommended that there should be another meeting of the Open Market Policy Conference early in January, unless a change in conditions suggests to the Board or the members of the conference the advisability of an earlier meeting.'"

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Meeting with Board. The Open Market Policy Conference met with the Federal Reserve Board during the afternoon of September 25, at which meeting Governor Harrison stated "that the Conference had discussed for the better part of the day general credit and business conditions both in this country and abroad and the System policy most advisable under those conditions. Consideration was given, he stated, to a preliminary memorandum prepared in New York as a report of the Chairman, reciting facts and conditions as they appear, but drawing no conclusions, without a survey of which it would be impossible to satisfactorily report the deliberations of the Conference. There being no objection, he read the preliminary memorandum to the meeting.

"He reported the Conference, in order to crystallize sentiment, discussed possible courses of System action (1) Adoption of a policy tending to make rate conditions easier, (2) A policy which tends to make them firmer or (3) A policy the purpose of which would be to maintain them about where they are. The Conference, he said, was in agreement that the System should not endeavor to follow an easier money policy and, with possibly two exceptions, that a policy looking toward the firming of rates should not be adopted at this time. He then read the report, which had been adopted by the Conference with nine affirmative votes, two negative and one Governor not voting.

"The Governor then asked if the dissenting or non-voting members of the Conference desired to make a statement or discuss the report.

"Governor Talley, who stated he was the non-voting member, said that he realized that between now and January 1st is not the time to change the situation in the direction of firmer money rates and that there would probably be no occasion for additional purchases of securities by reason

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of the overages in reserves which exist at the present time, but that he did not think there was sufficient recognition or appreciation of the latter fact on the part of the nine who voted for the report or a willingness to let these excess reserves be absorbed before further action is taken by the System. He also referred to the anxiety as to whether bills will be offered to the System and asked if the feeling of some that the System is not getting a sufficient amount of bills is not a sign that the market does not want additional money, provided there is a sufficient amount of floating bills so that the market can get money if it wants to do so.

"Governor McDougal, as one of those voting in the negative, reviewed the developments of the past year in the direction of easier money conditions to a point where the banks in the cities are possessed of an enormous amount of surplus funds. He stated that the seasonal demand which usually comes has not yet developed, that the probability is that unless something happens to change the outlook the demands through December will not be so great and that in view of these conditions he thinks the System has given the present extremely low money market an opportunity to show what it will do. He stated that he voted against the resolution for the reason that he does not believe the System should inject any more of the artificial into the money situation; that things should be allowed to take their natural course rather than to attempt to formulate a policy which it is expected will be in force for a period of three months. He stated that he would not be afraid if rates should firm a little, that if they went too far the System could take action to stop the trend and that he did not think it was good policy to maintain the present status of rates for three months or any definite period of time.

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"Governor Calkins stated that although he voted in the negative he was not out of sympathy with the general purport of the report. However, he pointed out an inconsistency in that the Open Market Policy Conference has been authorized since September 3rd, to buy not to exceed $50,000,000 of Government securities, if necessary to prevent any firming in existing money rates, and now has reached the conclusion that it does not wish to ease the market, but recommends in its report that it be given authority to buy up to $100,000,000. He stated, however, that he was not in agreement with Governor McDougal as to the expediency of taking action that might tend to firm money at this moment. He stated that there is every reason to anticipate the usual seasonal increase in the demand for credit and in his opinion the System should go through that period, the remainder of the year, before taking any action to bring about a less easy condition.

"Governor Harrison referred to the authority granted the Open Market Policy Conference on September 3rd and stated that the request at that time for authority to purchase up to $50,000,000 was indicative of nothing other than the practical problem of getting authority pending a meeting of the whole conference. He stated that in suggesting at the present time that the limit be fixed at $100,000,000 the Conference does not anticipate using either $50,000,000 or $100,000,000, but felt that the procedure was at best cumbersome and that as long as the policy had been agreed upon, if approved by the Board, adequate authority should be given to the Executive Committee rather than necessitate the reconvening of the whole conference in the fall if it were determined that purchases should be made in excess of $50,000,000. The recommendation of the conference, if approved by the Board, he stated, would define an objective,

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give the Executive Committee authority to execute the policy and provide means for anyone interested in checking up to call for a meeting to review the situation prior to January, when another meeting should be held in any event.

"Governor Norris expressed his own feeling, and perhaps that of some of the others voting in favor of the report, that while he would like to see the recommendation look a little more than it does toward the firming of rates, he did not care to take the responsibility of saying that any action in the direction of firming should be taken just at this time, when we are in the midst of the crop moving season and with the usual seasonal demand for currency during the few months ahead.

"Mr. Cunningham raised the question, in connection with the suggestion that the seasonal demand for Federal reserve credit this year will probably not reach the heights of previous years, of whether the funds injected into the market by the Federal Farm Board and Intermediate Credit Banks for the carrying and marketing of commodities should not be given consideration and, if added to Federal reserve credit, would not bring the total increase in seasonal credit to its normal proportion.

"Governor Young referred to an investigation made by him last year which developed that loans by the Farm Loan Board and Intermediate Credit Banks have the same status as loans by non-member banks so far as the demand for Federal reserve credit is concerned.

"Mr. Goldenweiser explained that the autumnal increase in the demand for Federal Reserve credit is brought about entirely by the increased demand for currency during that period of the year and that indications are that the demand for credit during the current year will be less because the demand for currency has fallen off due to the lower level of

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wholesale and retail prices, employment and payrolls.

"Dr. Miller then raised the question of the advisability of further purchases of Government securities by the Federal reserve banks on the basis that their removal from the general markets would force banks and others to seek new investments, thereby creating a turnover in the money market, which at present he described as being in a state of stagnation. He stated that such action might eventually lead to the injection into new enterprise of funds which could not otherwise be employed.

"Governor Harrison stated that this phase of the matter had not been considered by the Open Market Policy Conference which had, as stated in its report, voted against any action in the direction of further ease at the present time. He expressed the opinion that additional funds put into the market by the Federal Reserve System under existing conditions would only add to the burden of excess reserves now carried by member banks and that while it would probably strengthen the bond and mortgage markets and encourage borrowers of long time money, it would be fraught with a great many dangers attendant to a policy of inflation.

"Dr. Miller pointed out that when you have a condition of extreme idleness in the money market you have an involuntary deflation and stated that although he was not advocating a program of the sort, he had raised the question in order to ascertain whether its possibilities had been canvassed by the Open Market Policy Conference.

"The Governor pointed out that if additional credit were forced into the market through further purchases of Government securities, a limitation would be put on the tendency toward further ease by gold exports, offsetting the extent of such exports the purchases of securities made by the System.

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"He then referred to present conditions in the bond market which, he stated, appears at the present time to be functioning in a normal way, with no signs of undue inflation but with conditions easy enough to permit the placing of a good volume of bonds for construction purposes.

"Governor Norris then reported a conversation with a representative of a leading financial house who, in reply to an inquiry as to whether easier money rates would stimulate the bond market, replied that he would regret to see the Federal Reserve System buy any more securities or endeavor to put interest rates any lower. Governor Norris stated that the firm in question was of the opinion that no corporation needing capital today has any difficulty in getting it and a 1/2 per cent or 1 per cent reduction in rate would not induce further use of money."

Action of Board. Action on the recommendation of the Open Market Policy Conference was deferred at the meeting of the Board on September 20, pending receipt of advice of certain changes in verbiage, which the Governor stated Governor Harrison had advised him would be made in the report submitted to the Board by the Conference, and at the meeting on October 1, the Governor presented the following telegram from Governor Harrison containing the revised recommendation:

"The following report and recommendation of Open Market Policy Conference the substance of which was reported to the Federal Reserve Board at the joint conference last Thursday, is submitted to the Board for its consideration and approval:

"'The Open Market Policy Conference has considered the preliminary memorandum submitted to it by the Chairman and has reviewed at length general business and credit conditions.

"'In view of the continued severe depression in business activity,

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trade, and commodity prices in this country, as well as the rest of the world, it is the sense of the Conference that it should be the policy of the System, so far as possible, to maintain the present easy money rate position in the principal money centers, it being the opinion of the Conference that under present conditions no further easing of such money rates would be advisable and that no firming of such rates would be desirable whether because of seasonal requirements, gold exports, or other causes. It is, therefore, recommended that the Executive Committee be authorized, if necessary, to supplement bill purchases by the purchase of Government securities in the event that the seasonal demand for Federal Reserve credit, gold exports, or other factors should tend unnecessarily to tighten present money rates, and that in the event that any conditions should develop which would require sales of Government securities to execute this policy, the Executive Committee should be authorized to make such sales. It is understood, however, that if the Committee should have to buy or sell more than $100,000,000 of Government securities to maintain the status quo, new authority should be procured in accordance with the prescribed procedure.

"'It is recommended that there should be another meeting of the Open Market Policy Conference early in January, unless a change in conditions suggests to the Board or the members of the Conference the advisability of an earlier meeting.'

"The minutes of the Open Market Policy Conference which will contain this report will be transmitted to the Board as soon as drafted and available for distribution."

The revised report was considered at this meeting and again at the meeting on October 2, when the following letter was approved and ordered

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transmitted to Governor Harrison, as Chairman of the Open Market Policy Conference:

"The final Report of the Open Market Policy Conference, transmitted by you on September 30th, has been fully considered by the Board.

"The Board understands that the Conference is of the opinion that no change of the existing situation with regard to money rates is desirable - neither firming of rates nor easing of rates; and that, therefore, no operations in the open market are contemplated, except as they may become necessary to counteract factors threatening a disturbance of the status quo with respect to money rates. It is the understanding of the Board that the authority asked by the Conference to purchase or sell Government securities is to protect the existing level of rates, not to alter it.

"I am writing to advise you that the Board is prepared to approve the purchase or sale of Government securities within the limits proposed in the Report of the Conference, for the purpose of maintaining stability of rates under present conditions, such authority to run until an agreeable date next January, unless a change in conditions before that time should make a review and reconsideration of Open Market policy advisable at an earlier date.

"It will be understood that such purchases or sales will be made in consultation with the Governor of the Board or, in his absence, the Acting Executive Officer of the Board, except purchases or sales made in small amounts in pursuit of an understood program or in the event of a sudden emergency.

"It will be understood further that the present action of the Board in approving the recommendation of the Conference supersedes the

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action taken on September 3rd."

Communications on Open Market Operations and Foreign Exchange Transactions, Mid-October-Mid-December 1930

Letter from New York Bank to Board, October 16. The regular weekly letter regarding conditions and operations in the Government Securities and Bill Markets submitted to the Board by the New York Bank was discontinued with the letter of August 28, but was resumed on October 16, 1930, under which date Deputy Governor Burgess advised as follows:

"In accordance with our telephone conversation I am resuming our weekly letter summarizing open market operations and giving you in condensed form a weekly statement the details of which we report each day in our daily letter.

"During the last week, that is, the statement week of October 9 to October 15 inclusive, no change has occurred in the total holdings of government securities in the System Account which remain at $402,300,000. . ."

Communications on purchase of sterling. At the meeting of the Federal Reserve Board on October 22 consideration was given to letters dated October 14 and 17 from Governor Harrison of the Federal Reserve Bank of New York regarding the action taken by the Board of Directors of the New York Bank on October 9 in authorizing the bank to purchase up to five million pounds of sterling exchange as and when appropriate opportunity was afforded and, under which authority the bank had made purchases from time to time and on October 22 had purchased exchange in the amount of £2,200,000, ($10,691,000) of which amount £1,900,000 ($9,270,000) had been converted into sterling bills in which holdings the other Federal Reserve Banks participated. In a letter to Governor Harrison regarding these transactions, which letter was approved at this meeting, the Board stated, "so

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far as the operation affects the open market policy, the Board assumes that the special operations in foreign exchange will be considered as part of the open market program, subject, of course, to the policy agreed upon by the Open Market Committee and approved by the Board."

Letters from New York Bank to Board, October 23-November 6. Under date of October 23, Deputy Governor Burgess wrote the Board as follows:

"Since last week the total amount of government securities in the System Account has remained unchanged at $402,300,000 and the total in the investment account of this bank, unchanged at $112,010,700. The only transactions consisted in exchanges by which holdings of December Treasury bills were slightly increased and holdings of November bills, December certificates, and March notes slightly reduced, changes which improved yields slightly and accommodated the market. . . ."

The following letter was received from Deputy Governor Burgess under date of October 30, 1930:

"No changes have occurred in the total of the holdings of government securities in either the System Account or the investment account of this bank since my last letter dated October 23, 1930, such totals remaining at $402,300,000 and $112,010,700, respectively. Some exchanges were made, as a good demand for early maturities gave us an opportunity to replace some early maturing issues with slightly longer maturities having higher yields. . . ."

Under date of November 6, Deputy Governor Burgess wrote as follows:

"Since my last letter to you of October 30, 1930, there have been no changes in the total of the holdings of government securities in the System Account or the investment account of this bank, the totals remaining

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at $402,300,000 and $112,010,700, respectively. . . ."

Further communications on sterling purchases. In his letter of October 31, Governor Harrison advised that on October 30, his directors had approved the purchase of an additional five million pounds of sterling as and when it seemed desirable to do so in order to support sterling exchange and thus to avoid imports of gold and generally to improve sentiment regarding the exchange situation. This letter was presented at the meeting of the Federal Reserve Board on November 7 on which date a total of £6,000,000 ($29,277,000) of sterling exchange had been purchased by the New York bank and converted into bills and prorated among the Federal Reserve banks. The Board's reply, dated November 7, to Governor Harrison's letter of October 31 contained the following statement, "it is understood from Governor Harrison's letter of October 23, 1930, that so far as these purchases have any influence on the money market or money market rates they will be considered by the Open Market Policy Conference, along with all other factors influencing the credit position, in the execution of the policy agreed upon by the conference and approved by the Federal Reserve Board."

Under date of November 13, 1930, the Board was advised by Deputy Governor Burgess as follows:

"There have been no changes in the total holdings of Government securities either in the System Account or the investment account of this bank, since I wrote you last on November 6, 1930. . . ."

Recommendation of Federal Advisory Council, November 18. The Federal Advisory Council met in Washington on November 18, 1930 and adopted the following recommendation which was submitted to the Board:

"In the opinion of the Federal Advisory Council the present

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situation will be best served if the natural flow of credit is unhampered by open market operations or changes in the rediscount rates. The seasonal demands during the balance of the year should be met by rediscounting on the part of member banks."

Letters from New York Bank to Board, November 22 and 29. On November 22, Deputy Governor Burgess wrote the following letter to the Board:

"The total holdings of government securities in the System Account remain the same as when I wrote you last on November 13, 1930. You will have observed, however, from our advices, that the holdings of the individual banks have changed somewhat, the cause of this change being the taking over temporarily by the other banks of a portion of the participations of the Federal Reserve Banks of St. Louis and Atlanta, amounting to $10,000,000 and $5,000,000, respectively. The holdings in our own investment account have shown a slight reduction, of a temporary nature, however, as our holdings of United States Treasury bills maturing November 17 have not yet been entirely replaced by other securities. The money situation has not been such as to call for any haste in making these replacements, and purchases are therefore being made gradually as opportunity presents. . . ."

The following letter was received from Deputy Governor Burgess under date of November 29, 1930:

"Total holdings in the open market investment account are unchanged since my last letter to you dated November 22, 1930. There were some minor changes in maturities, due to a strong market demand for short maturities, which has enabled us to exchange at advantageous prices some of the earlier maturities for later ones. Further, the Federal Reserve Bank

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of St. Louis asked to be relieved temporarily of the balance of its participation in the System Account. These securities, amounting to $5,526,000, were accordingly taken over and apportioned among all other Federal reserve banks except Atlanta, which had itself been relieved previously of a large part of its participation. The total of the securities held in our own investment account has shown a slight increase due to purchases which we are gradually making in replacement of recent maturities in order to bring the account back to the $112,000,000 figure maintained over the past year. . . ."

Communications from New York Bank, early December. The New York bank made further purchases of sterling exchange on November 28, December 1 and 2. These purchases were converted into sterling bills and on December 4 the bank held a total of £7,150,000 ($34,882,000) of sterling bills in which holdings the other Federal Reserve banks participated.

On December 4, Deputy Governor Burgess wrote the Board as follows:

"No changes have occurred in the total of the holdings of government securities in the System Account since my last letter dated November 29, 1930. Changes in maturities were made, however, as the opportunity afforded, consisting in the main of replacing nearby maturities with later ones at advantageous rates. . . ."

On December 12, Deputy Governor Burgess wrote the following letter to the Board:

"For the statement week ended December 10 there were no changes in the total amount of holdings of government securities in the System Account. Our own investment holdings likewise remained at the same level. Sales contracts, however, were increased by $13,000,000, representing certificates maturing December 15 taken over temporarily from dealers.

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Yesterday we took these securities into our own account to leave the dealers free to take any other offerings. The distribution of the securities in the System Account underwent a change due to the repurchase by the Federal Reserve Bank of St. Louis of $5,000,000 of its participation of government securities in the Account, representing one-half of the $10,000,000 of governments of which that bank was temporarily relieved on November 17, 1930. . . ."

On December 18, Deputy Governor Burgess wrote the Board as follows:

"No change has occurred in the total of the holdings of government securities in the System Account, since I wrote you last on December 12, 1930. The changes in maturities are accounted for chiefly by replacement of maturing certificates of indebtedness and Treasury bills. Such additional changes in issues consisted almost entirely of exchanges of Treasury bills maturing February 16, 1931 and 3 1/2% Treasury notes called for payment in March for other issues of later maturities. These were made at advantageous rates at the same time satisfying the demand in the market for these short maturities. Were it not for the fact that upwards of $50,000,000 of replacement purchases made in our own investment account were made for delayed delivery in order to relieve the effect on the money market of the Treasury's operations for this quarter, our own investment account would show an increase of $40,000,000, over the total a week ago. This $40,000,000 represents the purchase from the Manufacturers Trust Company of that amount of longer term government bonds, at a time when that institution required large amounts of currency and wished to avoid an increase of loans here to too large a figure. . . ."

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Meeting of Executive Committee December 20, 1930

Preliminary memorandum of Chairman. The Executive Committee of the Open Market Policy Conference met in Washington on December 20 at which meeting the following preliminary memorandum was considered:

"At the time of the last meeting of the open market policy conference near the end of September it was hoped that the bottom of the business recession had been reached. But since that time business activity has declined further to about the lowest levels relative to normal ever reached in this country since adequate records became available. Industrial production has continued to decline, especially in the iron, steel, and automobile industries; factory employment has been further reduced; freight movements and merchandise exports have shown less than the usual autumn expansion; commodity prices have resumed the decline, agricultural products in many cases falling to levels even lower than before the drought. Only the textile industries have shown material signs of improvement.. . . .

* * *

"Banking Situation

"In the midst of a severe industrial depression has come a series of events which has to an important extent shaken public confidence in the banking situation. A series of rather spectacular bank failures in various parts of the country was capped by the failure of the Bank of United States in New York City, the largest bank ever to fail in this country, with 400,000 depositors largely among the foreign-born population. This failure was followed by runs on several New York City banks, an increase of over $150,000,000 in money in circulation, necessitating a like expansion in the demand for Federal reserve credit. A further result was greatly increased pressure in the security markets as some banks dumped securities to make their positions more liquid. Of still greater importance than the definite

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results is the effect of these events upon public sentiment. These occurrences may have retarded by some weeks the return of more active business.

"Bond Market

"Until the past few weeks, prices of the highest grade bonds held relatively firm, but prices of second grade issues have declined almost continuously until they are now in many cases the lowest in at least six years, and on a number of occasions recently it has been reported that there has been difficulty in obtaining a bid on large blocks of bonds. . . .

"One effect of weak bond prices has been a substantial depreciation in the investment portfolios of many banks, in some cases causing an impairment of capital. This situation is particularly acute in 'country' banks, although, as the following diagram indicates, these banks in general have shown little tendency toward rapid expansion of their investments either this year, or in previous years of easy money conditions. The investment difficulties of these banks appear to be due chiefly to a general tendency to purchase a large proportion of high-yield low quality bonds, which are particularly vulnerable in periods of reduced business activity and reduced corporation profits. Increases in investments of banks in large centers have been particularly in short-term issues.

"Another effect of the weak bond market has been a large shrinkage in flotations of securities to provide new capital. . . .

"Foreign financing and gold movements

"Foreign issues in this market have declined in the past few months to negligible amounts, due not only to general bond market conditions here, but more largely to political disturbances abroad. Thus

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foreign countries have been unable to strengthen their position with funds obtained in our capital market, and in some cases have had to ship gold to this country to service their previous debt and to make other payments. There were net gold imports to the United States of $26,000,000 in October, $33,000,000 in November, and $17,000,000 in the first 17 days of December, with additional shipments due to arrive later in the month.

"Reserve position of New York banks

"At the time of the September meeting, the New York banks had a moderate surplus of reserves and money conditions were easy. Since, at present rates, there has been a tendency to sell bills to the Reserve banks only after firmer conditions have appeared, it was not possible to forestall a slight tightening of the money market in the early part of October and again at the beginning of November, but in general the New York banks have had a moderate surplus of funds much of the time until within the past three or four weeks. In these weeks, Thanksgiving Day and month-end currency requirements, the beginning of the heavy currency demand for Christmas trade, and in the past ten days extraordinary demands for currency due to disturbed banking situations have absorbed all surplus funds in the market and caused a rather general increase in rediscounts at the Reserve Banks. Money rates have changed little, but the money situation is distinctly firmer. For a few days past Treasury operations have eased the market but tax collections to-day are expected to enable the Treasury to retire its special certificate and absorb any surplus funds.

* * *

"The present money market situation

"In planning for the last ten days of the year, which are always a time of some strain on the money market, two phases of the situation

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stand out. The first is that the recent bank failure in New York, coming as it did on top of important failures in other parts of the country, accompanying disastrous declines in the values of securities, has led to a feeling of great unsettlement, insecurity, and caution. The bond market is almost completely closed to new issues, and banks and others are most reluctant to make commitments for more than a very short time ahead, and in many cases have been dumping securities to make their position more liquid. The situation is thus peculiarly sensitive to any slight increase in bank borrowing or any other indication of money strain.

"The bill market in particular has reflected this situation in the unwillingness of many buyers of bills to buy any but the very finest bank names. It is not wholly clear yet how this condition may affect our acquisitions of bills but it seems possible it may impede somewhat the freedom of access of the money market to this bank through the bill market."

Excerpt from minutes of meeting. At this meeting no formal report was adopted by the Committee but the minutes contain the following:

"Governor Harrison then summarized the credit position, indicating that, owing to some tenseness in the banking situation, the public state of mind was now more sensitive than when the program of the Open Market Policy Conference meeting on September 25 had been adopted, which provided for a possible purchase of up to $100,000,000 Government securities if necessary, as a supplement to bill purchases, to prevent any tightening of the money market due to seasonal or other causes. It was his view that if there was any difficulty in securing an adequate amount of bankers acceptances to take care of all seasonal needs for the next ten days, the committee should be prepared promptly to buy governments rather than have any increase in nervousness arise from any indication of strain

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in the money situation.

"This question was then discussed by the members of the committee. In the course of discussion reference was made to the banking situation at different important centers, the probable currency and window dressing demands over the first of the year, and problems which had arisen in connection with some discrimination against certain names existing in the market for bankers acceptances.

"Those present agreed that if any real need arose they would be willing to leave it to the judgment of the Federal Reserve Bank of New York whether some additional amount of government securities should be purchased within the $100,000,000 authority with the understanding that the New York bank would keep in close communication with the members of the committee.

"With reference to the question as to whether any governments purchased at this time or other governments in the portfolio should be sold after the turn of the year, while it seemed to be the sense of the committee that this would prove undesirable or difficult in all the circumstances, it was agreed that a meeting of the open market policy conference should be held early in January to consider future policies at that time. January 12 was suggested as a satisfactory date."

Developments Late December 1930

(Secretary's note: At the meeting on December 23, the Federal Reserve Board approved a rediscount rate of 2 per cent on all classes of paper of all maturities established by the directors of the Federal Reserve Bank of New York, effective December 24, 1930, and a minimum authorized buying rate of 1 1/2 per cent for purchases of bankers' acceptances by the New York bank.)

On December 24 the Federal Reserve Bank of New York established the following schedule of effective buying rates on acceptances:

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Bankers' Acceptances

1 to 120 days	1 3/4 per cent
121 to 180 days	2 " "
Repurchase	1 3/4 " "
Trade acceptances	2 " "

Letter from New York Bank to Board, December 26. The following letter was received from Deputy Governor Burgess under date of December 26:

"The total of the holdings in government securities in the System Account is the same as when I wrote you last on December 18, 1930. The changes in the maturities were due to exchanges in the market of nearby maturities, mostly Treasury bills due February 16, 1931, for other short-term paper maturing in September and December next year. With regard to the holdings of this bank, we show a total of $152,464,250 at the close of business December 24 against $96,264,250 at the close of business December 17, the increase being entirely due to the replacement purchases which had previously been made for delayed delivery.

"With the lowering to 2% of the carrying rate on government securities and some firmness of money conditions sales contract holdings of government securities to-night show an increase to $8,000,000.

"The government security market has been somewhat easier in tone during the greater part of the statement week. Offerings were in excess of the demand, especially for the long-term issues, which were offered in fairly large volume with a resulting decline in price. However, on the last day of the statement week, following the announcement of the reduction of the rediscount rate by the Federal Reserve Bank of New York, the government security market showed an improvement and prices of short-term issues recorded small fractional gains with firming in the long-term issues. . . ."

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(Secretary's note: On December 27 the Federal Reserve Bank of Cleveland established a rediscount rate of 3 per cent on all classes of paper of all maturities effective December 29, 1930.)

Year-end purchases. Under date of December 30, Governor Meyer reported to the Board as follows:

"In talking with Dr. Burgess this afternoon at four o'clock, he reported that the total purchases of Governments for delivery today, made yesterday and today, due to the firmness in the money market in New York in connection with the year end requirements of the banks, amounted to $32,000,000. He stated that during the afternoon they felt the situation had been eased sufficiently to justify refusal to purchase on offerings from dealers of Government securities.

"In addition, bills were bought in the amount of $7,000,000, of which $2,000,000 were on repurchase agreements, and $18,000,000 of Governments on repurchase agreements also. These figures are merely rough.

"The Bank's operations in Governments, as I have already reported to the Board verbally in recent weeks, included a purchase of $40,000,000 par value, about, amounting to $43,000,000 in cash value, made on one occasion from the Manufacturers Trust Company which desired to reduce its bills payable with the New York Bank, and $5,000,000 bought on Saturday afternoon from the Public National Bank which also found itself borrowing too heavily from the Federal Reserve Bank in connection with withdrawals of deposits due to runs started in the days following the closing of the Chelsea Bank and Trust Company. The purchases from the Manufacturers Trust Company and the Public National were reported in off hours by Governor Harrison, in the case of the Manufacturers, and by Mr. Case

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on Saturday afternoon in connection with the Public National Bank, and I stated that I felt the Board would not object to these purchases in the light of all the circumstances attending them."

(Secretary's note: On December 31 the Federal Reserve Bank of Boston established a rediscount rate of 2 1/2 per cent on all classes of paper of all maturities effective January 2, 1931.)

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Developments, January-July, 1931

Developments in Early January.

Letter from New York Bank to Board, January 2. On January 2nd, Deputy Governor Burgess wrote the Board as follows:

"Due to an unusual amount of "window dressing" and indications of some credit strain, purchases were made for System Account (under authority of the Open Market Policy Conference of September 25, 1930) of about $32,000,000 which temporarily increased the holdings in the account by that amount. These purchases, some of which were made on December 30 and others on December 31, had the desired effect. Call money, which had gone to 4% on December 29, declined to 3 1/2% and then 3% on the last day of the year, and while Federal funds were firm and in demand on that day there was no real strain. Of the total amount purchased $10,000,000 have already been resold to the market for delivery to-day, and the executive committee is agreed upon a sale of the balance of $22,000,000 as the market will take it.

"This bank's individual holdings of government securities show an increase of about $6,000,000, of which $5,000,000 represents government securities taken over from the Public National Bank in order to enable them to reduce discounts. A sale of $1,000,000 was made to-day.

"Advances were made freely during the last few days of the year to dealers under sales contract, the amount outstanding at the close of business December 31 being $34,402,800 against $2,000,000 on December 24. These also will show a reduction to-day as the banks have large excess reserves and call money has dropped to 1 1/2%. . . ."

Board consideration of operations over year-end. At the meeting of the Federal Reserve Board on January 5 Governor Meyer reported a

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telephone conversation with Deputy Governor Burgess of the New York bank in which the latter advised that $17,500,000 of the $32,000,000 of Government securities recently purchased for System Account because of indications of some credit strain over the year-end period had been sold; also, that currency withdrawals in connection with the disturbed banking situation amounted, in Mr. Burgess' opinion, to about $300,000,000 and while it was hoped this may be returned promptly it is possible that it will be very slow in coming back..

At the meeting of the Federal Reserve Board on January 6, 1931, reference was made to the report submitted by Governor Meyer under date of December 30 and it was voted to approve his action in advising the New York bank that he felt, in the light of all circumstances, the Board would not object to the purchase of approximately $45,000,000 of Governments from the Manufacturers Trust Company and the Public National Bank, or to the purchase of $32,000,000 of Governments recently made by the Open Market Policy Conference because of banking and credit strain over the year-end period.

(Secretary's note: On January 7, 1931, the Board approved the establishment by the Federal Reserve Bank of St. Louis of a rediscount rate of 3% on all classes of paper of all maturities effective January 8th.)

Letters from New York Bank to Board, January 8 and 15. Under date of January 8 the Board was advised by Deputy Governor Burgess as follows:

"Since I wrote you last on January 2, 1931, a surplus of funds in the market and a strong market for government securities have justified further sales of government securities. Of the $32,000,000 of governments which were purchased at the end of December, a further $16,000,000 have

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been sold, in addition to the $10,000,000 last week. . . ."

(Secretary's note: Effective January 9, 1931, the Federal Reserve Bank of San Francisco established a rediscount rate of 3 per cent on all classes of paper of all maturities. On the same date the Board approved the establishment of a rediscount rate of 3 per cent on all classes of paper by the Federal Reserve Banks of Chicago and Atlanta, effective January 10, 1931.)

Under date of January 15, Deputy Governor Burgess wrote the Board as follows:

"Conditions with respect to the government security market are practically unchanged from the date of my last letter to you, namely, January 8, 1931. The surplus of funds in the market is even more ample than at that time, and the government security market is very strong. The balance of the $32,000,000 of governments which were purchased at the end of the year for the System account, amounting to about $6,000,000, has been sold at a profit. This leaves the total holdings of government securities in the System Account at $402,300,000 the same figure as for a number of months previous to the year-end purchases. . . ."

On January 16, 1931, the Federal Reserve Bank of New York established the following schedule of effective buying rates on bankers' acceptances

1 to 15 days	1 5/8%
16 to 120 days	1 3/4%
121 to 180 days	2%
Repurchase	1 3/4%

On January 21 the System's total holdings of bills and securities amounted to $1,007,000,000 consisting of $625,000,000 of Government securities, $152,000,000 of bills, and $230,000,000 of discounts.

Meeting of January 21, 1931. Tentative plans were made for a meeting of the Open Market Policy Conference on January 12, 1931, but it was not held until January 21, 1931, on which date the Governor or a representative from each Federal Reserve bank met in Washington.

Preliminary memorandum of Chairman. At the morning session of the

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meeting the following preliminary memorandum was presented by the Chairman and discussed by the Conference:

"The volume of business activity has declined since the last meeting of the Conference in September, and index figures for December reached as low points relative to normal trends as at any previous time in the country's history. There is some indication of slight increase in activity since the first of the year, but it is not yet clear whether the recovery is more than seasonal. Commodity prices have declined further.

"On top of other difficulties a series of bank failures has shaken public confidence and brought about a state of apprehension which has impeded business recovery. The number of bank failures in 1930 was 1,326 banks or over 5 per cent of all the banks in the United States. Deposit liabilities of failed banks totaled over $900,000,000. In December 328 banks failed with deposit liabilities of $407,000,000.

"The necessitous liquidation of bonds by banks and others, together with the disturbance to public confidence, affected the bond market with peculiar severity. Some of the indexes of bond prices declined in December to the lowest levels since 1924, while only those composed of the higher grade issues remained above their 1929 lows. Under these conditions new financing was practically stopped.

"Since January first easy money conditions in New York, a relaxing of the pressure on banks, and some indications of lessened public apprehension have been accompanied by a recovery in bond prices of about half their last quarter loss, and some resumption of new issues, though the market for new issues is highly selective and foreign bonds particularly are as yet almost unsaleable.

"The stoppage of foreign financing in this country at a time when other countries are going through a serious depression and are most in need

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of funds has placed a severe burden on a number of countries. These difficulties are accentuated by some reduction in American short term credits abroad. One consequence has been a weakening of foreign exchanges, and imports of gold totaling 121 million dollars since September 25.

"THE MONEY MARKET

"On the money market the primary influence was a large additional demand for currency accompanying bank disturbances. The amount of extra currency required between the middle of November and the first of January, in addition to the usual seasonal requirements, was about $350,000,000. Part of this extra demand for reserve funds was met by gold imports but most of it required a corresponding increase in Federal Reserve credit which took three forms: an increase in member bank rediscounting, an increase in acceptance holdings of Reserve Banks, and an increase in government security holdings. The following table shows the changes in the different categories of Reserve Bank credit by weeks over this period, which includes the usual seasonal increase.

Bills and Securities of All Federal Reserve Banks
(In millions of dollars)

	Discounts	Bills Bought	U. S. Securities	Total Bills and Securities
Nov. 19, 1930	205	178	596	985
Nov. 26	234	176	596	1,012
Dec. 3	251	219	602	1,078
Dec. 10	257	244	617	1,118
Dec. 17	331	252	692	1,283
Dec. 24	448	260	642	1,356
Dec. 31	251	364	729	1,352
Jan. 2, 1931	341	328	714	1,390
Jan. 7	292	265	659	1,223
Jan. 14	243	196	644	1,089
Jan. 19	243	170	635	1,048

"The increase between September 25 and January 2 of about $118,000,000 in Government security holdings consisted of the following:

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Purchased by Federal Reserve Bank of New York to provide two member banks with the means to secure currency (of which $20,000,000 has been sold by January 21)	$ 45,000,000
Purchased by Federal Reserve Bank of San Francisco in a similar situation (sold since January 1)	7,500,000
Temporary year-end purchase for open market investment account (sold between January 2 and 13)	33,000,000
Held under repurchase agreement (all now liquidated)	32,400,000
	$117,900,000

"The increase in bill holdings in the last quarter of 1930 included purchases of ($35,000,000) of sterling bills by the Federal Reserve Bank of New York, participated with other Reserve Banks, for the purpose of supporting sterling exchange during the period of greatest seasonal weakness, and avoiding gold imports from that source. This holding of sterling will be liquidated when strength in the exchange permits it. Sterling is now at the gold import point.

"Since the first of the year the return of currency has been close to the usual seasonal amount and extremely little of the extra currency called into circulation has come back, perhaps about $50,000,000, leaving outstanding an extra amount due to extraordinary causes of about $300,000,000 and calling for that much additional Federal Reserve credit. The rate of return of this extra currency provides a mathematical measure of the passing of a state of apprehension.

"The seasonal return of currency and retirement of year-end credit has been largely absorbed by a decrease in discounts of $100,000,000, a reduction of $90,000,000 in Government securities as shown above, and a decrease of $158,000,000 in bill holdings.

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Despite this retirement of Federal Reserve credit and the continued additional demand due to extra currency remaining outstanding, money rates have been easy in New York since the first of the year, and there has been a tendency towards the accumulation of surplus reserves. This appears to reflect primarily extreme caution throughout the country in the use of funds, the result of which is to pile up money in New York, employed at short term, rather than to make loans or purchase investments freely.

"The surplus reserves of the New York City banks, have fluctuated greatly. On several days last week they were as large as 80 million dollars but, as in previous months, there has not been continuously any considerable surplus; a few days of plethora of funds has been followed by a drying up of the surplus.

"Prospects for Coming Weeks

"The seasonal return flow of funds is usually largely completed by the end of the third week in January; so that the movement due to purely seasonal causes should now be near completion. The System has bill maturities of $100,000,000 between now and the end of January which should be sufficient to take up any excessive slack in funds for the balance of the month. Early in February the spring demand for funds usually begins, rising to a peak in late March or early April.

"The unknown quantity in the situation is now the extra currency called into use to meet the December banking emergencies. If and when this returns it should make possible a liquidation of discounts to a point where they were before the unusual needs arose and lead also to some further reduction in bill holdings. Some return from this source may be available to meet spring demands for funds."

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Excerpt from minutes of meeting. The minutes of the morning meeting of the Conference report the following:

"Governor Harrison then reviewed for the conference his discussions with European bankers and others and the impressions he gathered on his recent European trip. In the course of extended discussion of these matters Governor Harrison pointed out that the world owes the United States on balance about $600,000,000 each year, and that payment has to be made in gold, in imports from foreign countries to us, or by borrowing from us. These countries were unable to send us much more gold, their exports to us were now limited and new financing curtailed. Their only alternative was to diminish their purchases of goods from us, which was now being done to our detriment.

"He indicated that the people he met abroad appeared to believe that recovery from the present business depression depends largely on America, partly for psychological reasons and partly because of the importance of exports to us and borrowing from us.

"Generally speaking he felt that the economic situation of European countries had grown distinctly worse since his visit last spring, and has probably grown somewhat worse in the weeks since his recent return from Europe.

"After general discussion with regard to the foreign situation, Governor Harrison referred to the reduction of the discount rate of the Federal Reserve Bank of New York, effective December 24, 1930. He indicated that the banking situation was of primary importance in the decision. He had been urged from many quarters to make a reassuring statement which might aid in quieting the banking situation. Such a statement was practically impossible because to be strong enough to do

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any good it would run the risk of being contradicted by any small bank failure which might thereafter occur. The rate reduction, apart from other reasons, served as a method of stating to the public that money was freely available. The rate reduction was justified technically by the money situation. It would probably help the foreign situation as well as the domestic situation. Incidentally, it might make it easier for France to reduce her rate. The discount rate decision had been made very rapidly, and there had not been an opportunity to discuss the matter with most of the other Reserve banks. In fact, the proposal had only arisen after the meeting on December 20 of the executive committee of the Open Market Policy Conference.

"Governor Harrison referred to the holdings of sterling bills purchased during the period of greatest weakness of sterling last autumn. He said it had been the intention to sell these bills some time after the turn of the year, when it was hoped that sterling would be strong enough to make that an orderly operation. Recent weakness of sterling, however, has made this program seem undesirable up to this time, and instead of the sale of sterling the directors of the New York bank had voted at their last meeting to sell a part of the securities which had been added to the portfolio of the New York bank during the recent banking emergency.

"Governor McDougal commented on the recent discount rate change by the Federal Reserve Bank of Chicago and indicated with regard to the last three changes in their discount rate that in the case of the first two of these changes it had been hoped that the reduction in the rate would have some encouraging effect upon business, but that the latest change had been made without any such belief, but was designed to correct to some extent the large differential of 1 1/2% between the Chicago rate and that

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of the New York bank.

"Governor McDougal expressed the hope that there would be no further reduction in the bill rate; that money was too cheap with Federal funds quoted at 1/4 of one per cent; and that it would be better for the market to get the bills if it wanted them.

"Governor Calkins suggested that the position should be one in which we kept our bill rate low, but tried to correct any over-sloppy condition in the money market by the sale of government securities. Several of those present concurred in this view.

"There ensued a discussion as to the statement of facts in the preliminary memorandum submitted by the chairman, and Governor Harrison further reviewed the changes in the money market since the last meeting of the Open Market Policy Conference, pointing out that the seasonal expansion in the requirements for Federal reserve credit up to the time of financial disturbances had been less than normal, and bill purchases appeared to be sufficient to take care of seasonal needs without additional purchases of government securities. This appeared to be true, until the banking emergency when the New York bank had found it necessary to take over securities from two member banks and at the end of the year when purchases were necessary in order to avoid too great tightening of credit due to an unusual amount of "window dressing." Purchases made for the open market account had since been liquidated as had also $20,000,000 of the emergency purchases made by the New York bank. Since the turn of the year the return flow of funds appeared to have greatly aided the bond market. There had been a considerable excess of reserves of the New York City banks, though this had fluctuated a good deal. It was the general plan of the New York bank to liquidate the balance of the temporary

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purchases of $45,000,000 of securities, as the surplus of reserves offered opportunity without interfering with the bond and money market.

"It was moved by Governor McDougal that it was the sense of the conference that the present was an opportune time to let government securities go from the open market portfolio as and when it could be done without undue disturbance, with the understanding that sales should not be made rapidly and should be made in orderly fashion. Governor McDougal explained this motion by saying that some time ago System open market operations had followed a general principle which he believed to be sound, and should be reverted to, that whenever the market is ready to take bills and government securities the Reserve System should sell them, and conversely, the System should acquire them when the market cannot take them readily. On this principle he would like to hold bill rates where they were to push bills out of the System.

"Governor Harrison commented that if we sell governments we should have the bill rate at a point nearer to the market so that we might be ready to take in bills without such a big penalty to the seller. He would not favor any sales of governments unless the bill window were opened to provide in this way any money the market required.

"There ensued a general discussion as to how a general policy might be stated. . . ."

Report of Conference. During the afternoon the following report was adopted by the Conference and submitted at the joint meeting of the Conference with the Federal Reserve Board:

"The Conference has considered the preliminary memorandum submitted by the Chairman and has reviewed business and credit conditions as they now appear. It is the sense of the Conference that in view of these

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conditions it should be the policy of the System to continue an easy money policy in the best interest of trade and commerce. It is the belief of the Conference, however, that the seasonal return flow of currency and credit and other factors have tended during recent weeks to make for an undue excess of funds in the principal money centers. It is therefore the opinion of the Conference that in these circumstances it would be desirable to dispose of some of the System holdings of government securities as and when opportunity affords itself to do this without disturbance or any (undue *) tightening of the money position. It is understood that there shall be a new meeting of the Conference as soon as or whenever conditions in the opinion of the Conference or the Federal Reserve Board justify a reconsideration of this policy."

"*this word later omitted."

In connection with this report the Chairman of the Conference stated that there was no disagreement among the members of the conference from the belief that in view of the undue excess of credit prevailing in most of the important markets of the country an opportunity is presented to dispose of some of the securities held in the open market account for the purpose of taking up some of the excess caused by the return flow of currency and credit, the lack of demand for new credit and some gold imports.

Excerpt from Minutes of meeting with Board. The Board's record of this joint meeting contains the following:

"Governor Harrison then referred to the fact that the directors of the Federal Reserve Bank of New York in view of the heavy excess of reserves in the market, at their meeting last Thursday, thought it well to avail themselves of the opportunity to dispose of some of the banks' own holdings of Governments acquired over the year-end and during the

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disturbed banking situation preceding that period. As a result of these sales he stated that excess reserves were diminished temporarily, although last night they again amounted to around $57,000,000. The situation, he stated, is most volatile and affords an opportunity of disposing of securities without any undue risk of tightening credit or disturbing the bond market. The New York bank, he stated, still has $25,000,000 of Governments to liquidate from its own portfolio.

"There was a discussion of the banking situation, the excess reserves carried by member banks and the efforts of banks generally to place themselves in the most liquid condition possible. Also as to the steps which might be taken by Federal reserve banks at this time to prepare to handle any further bank disturbances in their respective districts.

"Governor Meyer referred to the policy of security sales recommended by the Committee as being one entirely proper under normal credit conditions but stressed the fact that at the present time the bank situation should be a major factor in the determination of policy. He pointed out that the bill holdings of the System amounting to approximately $185,000,000 constitute an automatic means of taking up surplus funds, whereas, should the System embark upon a policy of security sales, the action will be interpreted by the public generally as a major reversal of Federal reserve policy. He also referred to the reluctance on the part of bankers to show bills payable and pointed out that should a further banking situation arise the Federal Reserve System would undoubtedly find it necessary to go back into the bond market and make purchases.

"Governor Harrison replied that it was not unlikely that the maturity of $100,000,000 of bills held in the System account between now and the end of January might take up the surplus reserves, depending on

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the rapidity with which the balance of the emergency currency issued during November and December comes back. He said that the disposition of the Conference as a whole was not to do anything specific, but to give the Executive Committee authority to sell Government securities if an opportunity affords, to take up any surplus, provided it can be done without any disturbance or undue tightening of the money situation. He stated that he personally would not be willing to embark on any Government security sales unless the buying rate of his bank on bills is at the market, thereby enabling bills to come back to the Federal Reserve System if the security sales should go too far.

"Governor Meyer replied that under ordinary conditions he would be in favor of a policy leading to conversion of Governments in the System portfolio into acceptances or bills payable, increasing rediscounts as the demand for credit increases and raising the discount rate whenever it should appear desirable. He stated, however, that with the present difficult banking situation, he thought it inadvisable to go into an operation which would be interpreted as in the nature of contraction of credit when it is not necessary, and when the bill holdings would respond automatically to the needs or oversupply of credit for business.

"Other members of the Conference expressed the opinion that it would not be harmful to sell Government bonds as contemplated in their report if and when opportunity is afforded, and pointed out that under the report, if these sales had any adverse affect they would immediately be stopped.

"Others pointed out that sales from the open market account at this time would place the System in better position to take on additional Government securities later if that should be found necessary to meet a

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banking situation."

Developments Relating to Open Market Operations, mid-January - late April 1931

Letter from New York Bank to Board, January 22. Under date of January 22, Deputy Governor Burgess wrote the following letter to the Board:

"During the past week, with a continuing large surplus of bank reserves, we sold advantageously $20,000,000 of securities from the investment account of this bank. . ."

"The total amount of holdings of Government securities in the System Account remained unchanged at $402,300,000. There were, however, some changes as between issues held in the account, due to the sale to the Federal Farm Loan Bureau noted above, and a small amount of exchanges . . ."

On January 26 the New York bank established the following schedule of effective buying rates on acceptances:

Bankers' Acceptances:

1 to 45 days	1 1/2%
46 to 120 days	1 5/8%
121 to 180 days	2%
Repurchase	1 5/8%

Trade Acceptances 2%

Board review of conference procedure and report of Conference. At the meeting of the Federal Reserve Board on January 28, at which Governors Harrison and Young were in attendance, Governor Meyer referred to the procedure at meetings of the Open Market Policy Conference and it was agreed that it would be an improvement over the present procedure if the initial meeting at such Conferences were a joint one with the Board, following which the Open Market Policy Conference could meet separately to formulate opinions and prepare a report, and then meet again with the Board for a discussion of its recommendations.

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On January 29 the Board considered the report submitted by the Open Market Policy Conference, and voted to advise the Chairman of the Open Market Policy Conference that in the light of the discussion which followed its presentation at the joint meeting of the Conference and the Board on January 21, the Federal Reserve Board had approved the report as submitted, with the amendment made by the Chairman subsequent to the meeting of the Conference with the Board.

Letters from New York Bank to Board, January 30-February 13.

Under date of January 30 the Board was advised by Deputy Governor Burgess as follows:

"Referring to my letter dated January 22, 1931, we were able during the statement week to sell a further $15,000,000 of government securities from the investment account of this bank. These sales, plus the $20,000,000 of securities sold during the previous week, account for $35,000,000 of the $45,000,000 of government securities which were taken over from two New York City banks in December, and reduce our individual holdings to $122,000,000.

"No changes occurred in the holdings of governments held in the System Account, other than a few exchanges of maturities. . . ."

The following letter was received from the Deputy Governor of the New York bank under date of February 5:

"Since I wrote you last on January 30, 1931, no changes have occurred in the government securities held either for System Account or our own investment account. The maturities have likewise remained unchanged. . . ."

At the meeting of the Board on February 10 the Governor reported a telephone conversation on that day with Deputy Governor Burgess of the

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New York bank in which the latter reported that the bank had sold one-half million pounds of the sterling bills held for System Account and the Governor stated he had advised Mr. Burgess it was his understanding that the System's holding of the sterling bills would be disposed of if possible during February and March in accordance with the plan previously agreed upon.

On February 13, 1931, Deputy Governor Burgess wrote the Board as follows:

"There was no change in the total of government security holdings in the System Account in the week ended February 11, although there was a change in the participation of two banks due to the transfer to the Federal Reserve Bank of Kansas City, at its request, of $5,000,000 of the participation of the New York bank. This transfer appeared justified by the general earning position of the two banks. The maturities remain unchanged. No changes occurred in the individual holdings of this bank during the week ended Wednesday, February 11. We have, however, to-day sold through the Federal Reserve Bank of Chicago another $10,000,000 of government securities representing the remainder of the $45,000,000 of governments purchased from member banks during December and held temporarily in our own account. . ."

Recommendation of Federal Advisory Council on open market operations and discount rates. The organization meeting of the Federal Advisory Council was held in Washington on February 17, 1931, and at that meeting the following recommendation was adopted and presented to the Board:

"The Federal Advisory Council wishes to reiterate the recommendation made at its last meeting that the situation will be best served if the natural flow of credit is unhampered by open market operations or changes in the rediscount rates.

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"The Council believes that the manner in which open market operations have been conducted since the last meeting of the Council is satisfactory."

Letters from New York Bank to Board, mid-February to mid-March. The Board was advised by Deputy Governor Burgess under date of February 19, as follows:

"There has been no change in the total of the holdings of government securities in the System Account during the week ended February 18. Maturities were changed somewhat as $25,000,000 of Treasury bills due February 16 were replaced by other short-term issues. The change in the holdings of this bank consisted of a reduction of $10,000,000 representing a sale through the Federal Reserve Bank of Chicago on Friday, referred to in my letter of February 13 . . ."

The following letter was received from Deputy Governor Burgess under date of February 26, 1931:

"There has been no change in the total of the holdings of government securities in the System Account since I wrote you last on February 19 . . ."

Under date of March 5 Deputy Governor Burgess wrote the Board as follows:

"Holdings of government securities in the System Account still remain at $402,300,000, the only change that has occurred since my last letter to you dated February 26 being the exchange of $15,000,000 - 3 1/2% notes for a like amount of short-term governments. The individual holdings of this bank have likewise remained the same. Arrangements have been made to replace in both accounts all March 15 maturities . . ."

On March 12 Deputy Governor Burgess wrote the following letter to the Board:

"There has been no change in the total of the holdings of government securities in the System account since I wrote you last on March 12, 1931 . . ."

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Letters from New York Bank to Board on handling of mid-March Treasury operations. The following letter was received from Deputy Governor Burgess under date of March 19, 1931:

"The total of the holdings of government securities in the Special Account is the same as when I wrote you last on March 12, 1931, although the maturities have been changed somewhat due to the replacement of March 15 maturities with other short-term government issues. Individual participations by the banks underwent a further change due to the repurchase by the Federal Reserve Bank of Atlanta of the balance amounting to $2,500,000 of its participation in the Special Account, which that bank relinquished temporarily on November 14 last. This bank's holdings show a reduction of $13,000,000 as compared with a week ago, due to delayed delivery of replacement purchases in order to take up some of the excess funds in the market. Delivery of the $13,000,000 will be made to-morrow.

"As a result of the large Treasury operations the volume of business at this bank on Monday established a new high record. The attached sheet shows a tabulation of the Treasury and other operations indicating that more than $3,000,000,000 of business went through the bank. Despite this large volume of operations the Treasury special certificate to cover their excess of disbursements was not as large as at many previous times. It was concentrated in New York and the totals were,

Monday,	$170,000,000
Tuesday,	103,000,000
Wednesday,	85,000,000

and the figures for to-night will probably be in the neighborhood of $60,000,000. In order to prevent this operation from flooding the market with money we followed our usual practice of selling participations in this certificate to member banks. The following table shows the amounts

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of these sales and the institutions to which they were sold in the past four days. It will be noted that $20,000,000 on Monday and Tuesday, and $10,000,000 on Wednesday and Thursday, were sold through the Federal Reserve Bank of Boston. Because of the difficulty in computing exactly the size of the special certificate, and in order to avoid an oversale the amounts sold to the Chase Bank on Tuesday, Wednesday and Thursday were taken from the security portfolio of the Federal Reserve Bank of New York at the same rate as that carried by the special certificate, namely, 1 1/2 per cent.

	Monday	Tuesday	Wednesday	Thursday
		(millions)		
Boston	20	20	10	10
Chase	30	30*	15*	10*
Guaranty	15	15	8	5
National City	15	15	8	5
First National	15	15	8	5
Irving	10	10	5	5
Fifth Avenue	1	1	1	-
Manhattan	-	-	-	5
Total	106	106	55	45

*From account of Federal Reserve Bank of New York.

This operation is all carried through by an exchange of letters, and the banks are now sufficiently accustomed to the procedure so that it all goes through very smoothly. . . "

Under date of March 20 Deputy Governor Crane of the Federal Reserve Bank of New York advised that the liquidation of the special sterling bill account amounting to approximately $35,000,000 held by the New York Bank, which was begun on February 10, 1931, had been completed through the sale of the remainder of the bank's holdings of bills to the Bank of England.

On March 26 Deputy Governor Burgess wrote the Board as follows:

"Since I wrote you last on March 19, 1931, no changes have been

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made in the holdings of government securities in the special investment account affecting the total which still remains at $402,300,000. Some changes in maturities were made as the opportunity arose to make exchanges at advantageous prices.

"The buying back last Friday of the securities sold to member banks temporarily in connection with the Treasury overdraft, the elimination of the overdraft itself on Tuesday of this week and the taking in on Friday of the securities on which delivery was delayed, brought our own investment account to the same level as formerly, namely, one hundred and twelve million odd . . ."

Further reductions of New York Bank buying rates on acceptances.

The following letter was received from the Deputy Governor of the New York Bank under date of April 2:

"No changes have occurred in the status of the system account since I wrote you last on March 26, either as to the amount of holdings or the maturities. The investment account of this bank likewise remains unchanged . . ."

Under date of April 9 Deputy Governor Burgess wrote as follows:

"The total amount of the holdings of government securities in the system account and the investment account of this bank have not changed during the past week . . .

"...While there has been in recent weeks some discussion of higher bill rates, this fear has been passing, and a change to-day in our buying rate for 45 to 90 day bills, bringing them under the 1 1/2 per cent rate which heretofore has applied only to 1 to 45 day bills, has acted as a further reassurance against firming rates. Dealers sold us a fair amount of short bills at intervals during the week which, with

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our purchases from banks, exceeded system maturities by about $13,000,000 and this, together with the $5,000,000 decrease in our sales contract holdings effected a net increase in the aggregate amount of bills held for System account by about $8,000,000."

On April 9 the Federal Reserve Bank of New York in order to offset apprehension of firmer money rates as the result of Treasury financing, established the following schedule of effective buying rates on bankers' acceptances:

1 to 90 days	1 1/2%
91 to 120 days	1 5/8%
121 to 180 days	2 %
Repurchase	1 1/2%

The following letter was received from Deputy Governor Burgess under date of April 16:

"No changes have occurred in the amount of government security holdings in the system account or the investment account of this bank since I wrote you on April 9. With the continued ease in money there has been no occasion to make advances to dealers on government securities under sales contract . . ."

At the meeting of the Executive Committee of the Federal Reserve Board on April 18 Governor Harrison of the Federal Reserve Bank of New York was present and outlined the reasons which prompted his directors on April 16 to request the Federal Reserve Board to reduce to 1 1/4 per cent the rate established by it as the minimum authorized buying rate for the purchase of bankers' acceptances by the New York Bank. No action was taken at this meeting, but at the meeting of the Board on April 20 the request of the New York directors was approved.

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On April 21 the Federal Reserve Bank of New York established the following schedule of effective buying rates on bankers' acceptances:

1 to 45 days	1 3/8%
46 to 90 days	1 1/2%
91 to 120 days	1 5/8%
121 to 180 days	2 %
Repurchase	1 1/2%

The following letter was received from Deputy Governor Burgess under date of April 24, 1931:

"Total government security holdings have remained unchanged during the period from April 16, when I wrote you last, to the 22nd inclusive . . ."

On April 27 the following schedule of effective buying rates on bankers' acceptances was established by the New York Bank:

1 to 45 days	1 1/4%
46 to 120 days	1 3/8%
121 to 180 days	2 %
Repurchase	1 3/8%

On April 29 the System's holdings of bills and securities amounted to $924,000,000 and consisted of $402,000,000 of securities in System account, $196,000,000 held by the individual Federal reserve banks, $170,000,000 of acceptances and $155,000,000 of discounts.

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Meeting of April 29-30, 1931.

Following the Governors' Conference which convened in Washington on April 27, 1931, a meeting of the Open Market Policy Conference was held on the afternoon of April 29, 1931.

Report of Chairman. At this meeting the following report of the Chairman of the Conference to the Governors' Conference was considered:

"Government security holdings of the Federal Reserve System now total $602,000,000, which is about the same figure at which they have been maintained since the middle of August, 1930, except for a temporary increase and decrease over the end of the year amounting in the aggregate to about $100,000,000. In fact the present total represents an increase of only $25,000,000 over the amount held the middle of last June, the $25,000,000 having been bought in August when gold was moving to France.

"Broadly speaking the open market program of the Federal Reserve System since the stock market crash in the autumn of 1929 consisted of a rapid reversal of the policies which had been designed in 1928 and 1929 to place vigorous pressure upon the money market and the member banks. These policies had involved a decrease of about $450,000,000 in security holdings between December 1927 and October 1929. Between October 1929 and August 1930 the operation was exactly reversed and $450,000,000 of securities were purchased, bringing the total back again to around $600,000,000.

"It is fair to say that the open market operations undertaken during this period were not pursued with the idea that thereby any vigorous stimulant might be given to business or finance, but rather with the idea of removing in a period of reaction and depression the pressure which had been placed upon the market in 1928 and 1929, a period of inflation and

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expansion. In this way the System undertook simply to remove impediments which might otherwise unnecessarily delay a restoration of more normal operations in the money market. In particular it was recognized that the pressure of high money rates and a restricted supply of funds in 1929 had shut off a certain amount of the supply of mortgage and long time capital to various types of borrowers including foreign borrowers whose purchasing power for our goods was thus seriously curtailed. Ordinarily there has been in times past a close relationship between the volume of new financing and business activity, and financing in this market for foreign countries has been closely related to the gold movement and to the maintenance of trade equilibrium between the nations especially since the war. Foreign countries have in recent years owed the United States currently on balance approximately $500,000,000 a year which includes $220,000,000 due on account of interallied debts. This amount they have to pay in goods, in gold, or by an increase in their indebtedness to us or a decrease in our indebtedness to them. At the present time our market is pretty effectively closed to any increase in foreign shipments of goods for one reason or another including reduced consumption of goods and tariff barriers. Our money market both short and long term is closed to foreign borrowers so that they cannot increase their indebtedness. Hence the two forms of payment that are open are a withdrawal of foreign money from the United States or a shipment of gold to us. In the present disturbed state of the world foreign individuals find this the safest market to employ their funds and hence on that account there has been little movement away from this market. The net result has been that we have received considerable amounts of gold as the only means by which foreigners might meet their obligations to us. The most hopeful method by which some other adjustment may be made appears to be through an

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increase of our loans to foreigners. It was a reasonable hope that the removal of pressure from the money markets might be followed by renewed financing for enterprises of the sort which had for some months been inadequately supplied with capital, and might lead also to a resumption of foreign borrowing here to restore trade equilibrium already considerably unbalanced.

"The effect of system purchases of securities in late 1929 and during 1930 was somewhat augmented by continued gold imports from abroad and the retirement of currency from circulation due to business depression. The net result was to enable the member banks to reduce their Federal reserve indebtedness to less than $200,000,000 and to bring about easy conditions in the principal money markets.

"Under these circumstances there was a considerable recovery in the bond market in the first half of 1930 which was, however, soon interrupted by a series of unfavorable developments wholly unrelated to the System's easy money policy. Increasing political disturbances following economic disorders abroad acted almost immediately to deter investors in foreign bonds, so that while about $850,000,000 of new money was loaned abroad in the first seven months of 1930, the civil war in China, revolutions in South America, governmental overthrows in Eastern Europe, friction between France and Italy and finally the German elections in September practically shut our market to foreign borrowers in the last five months of the year. Furthermore the severe drought in this country diminished the purchasing power of large agricultural areas. The business depression became more severe and a series of banking difficulties in the course of which a number of sizeable banks suspended operations accentuated the psychology of fear and threw upon the market sizeable blocks of bonds both domestic and foreign.

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"After the turn of the new year there was some revival of confidence. The bond market staged a considerable recovery. But at this point a number of bills was introduced into Congress calling at the maximum for an immediate cash payment to World War veterans of $3,400,000,000. The payment of this huge sum, or any sum nearly approaching it would have required large new issues of government obligations. Any such program of financing could only have been carried forward at interest rates much higher than those currently borne by outstanding government bonds. Thus the inevitable consequence of such new issues would have been to revalue outstanding bonds, not only government bonds but other prime issues as well, to a higher yield basis in proportionate relation to the new bonds. In the face of this possibility trading in bonds was practically at a standstill from the latter part of January until the bonus question was finally settled late in February.

"Since the passage of definite legislation the bond market has in part recovered lost ground, and new issues of securities have been in somewhat more satisfactory volume. However, the recognition of the necessity for the Treasury's securing considerable amounts of new money to meet the bonus legislation as passed and to make up a deficiency in tax receipts is still a deterrant influence on the bond market, and severe depression in many lines of business, together with continued political and economic unsettlement in various parts of the globe have stood in the way of the complete restoration of a satisfactory security market. Even now, there is practically no market for foreign issues, or for securities of businesses concerning the credit of which any possible question has been raised. While bonds of the highest grade are selling at or close to their highest prices in recent years practically all other categories of bonds continue

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to be depressed and without a broad market.

"As far as the business situation is concerned it cannot yet be established that the turn has come. There was for a time considerable anticipation for a spring revival but that hope passed without apparent fulfilment. Comprehensive indexes of the total volume of trade do show a slight increase from January to March, but the increase is not sufficient to indicate a definite trend and the current reports from business do not offer any certainty of its continuance, but rather show a little setback.

"An interesting change in the banking statistics of the past few weeks has been an increase in the loans and investments of the reporting member banks resulting directly from new issues of government securities. On March 15 the Treasury sold $400,000,000 more securities than it redeemed, most of which was taken in the first instance by the weekly reporting banks, so that in a single week due to this and other factors their total loans and investments showed an increase of about $500,000,000. On the liability side of the ledger the immediate result was an increase of government deposits in these banks, but as these deposits were drawn down there was a tendency for them to be replaced by deposits of individuals as the Treasury funds were paid out to individuals largely in the form of veteran loan checks. After some recession the total volume of credit showed a similar though smaller increase in connection with the April 15 issue of Treasury certificates. These operations probably tend to result in some increase in available purchasing power, and may in part account for the slight pick-up in some lines of business but thus far not sufficient time has elapsed for the business statistics to reflect any definite results. There has been in the past three weeks an unseasonable increase in the total amount of money in circulation which, in the absence of other explanation, appears

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largely due to the withdrawal of currency by veterans who have received their bonus money. Already actual payments to veterans have totalled about $500,000,000, and the increase in currency as a departure from the usual seasonal tendencies, has been in the neighborhood of $50,000,000.

"Three problems may be suggested as related to future system open market policy. The first relates to the bond market. Generally speaking the volume of new domestic issues are now going forward in limited volume, and these issues are restricted to securities of primest character. When put out at proper prices they appear to meet with satisfactory distribution but bonds which are less than prime can hardly be sold. There is no material market for foreign issues.

"The unsettlement of the bond market in recent months and the severe depreciation of many types of issues has focused attention upon possible errors which issue houses and the market in general may be said to have made in the past in the issuance of securities. It may be that a reconsideration of procedures and responsibilities is a necessary preliminary to the resumption of large scale foreign lending in particular. In any event these matters have recently been the subject of considerable discussion and consideration in the New York market.

"An added complication to the status of the bond market has been found in the reluctance with which banks have made any increases in their holdings of long time bonds. It is true that the investments of the reporting member banks show an increase of approximately $2,000,000,000 as compared with a year ago. About half of this increase, however, has taken the form of government securities and a considerable part of the rest is probably in the form of short term obligations of one sort or another.

"The second problem lies in the banking situation itself. As

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reports are received of recent bank examinations the extent of bank depreciation on securities and losses on loans has been revealed. In many institutions capital has been seriously impaired by these losses. One feature of bank examination procedure which these returns have brought to light has been the widest variation of practice in charging off losses on securities. In the second district at least it has become clear that no really adequate method for determining security losses has as yet been devised, and a wide difference of opinion as to intrinsic values has been revealed especially with respect to real estate mortgage bonds. This appears to be a field in which a considerable amount of careful work may well be carried forward. From the point of view of Federal reserve policy question may be raised as to the effect on the position of many banks of any changes in policy which may be made. An easier money policy inevitably would tend to reduce the interest return of member banks on a part of their earning assets, partirularly short term governments and bills which are held most largely by city banks. On the other hand any policy which would have an influence even in small degree toward restoring a better bond market would aid many banks throughout the country in larger degree.

"The third problem is perhaps the most deep rooted one of the moment, that is, the gold movement. Since the first of the year about $120,000,000 of gold has come to the United States with approximately $33,000,000 on the way. This follows a movement of $275,000,000 in 1930, and the present rate of import is increased by a movement from France which may reach considerable proportions. From the point of view of world public opinion the movement from France is of importance because during 1930 we shared with that country the distinction of acting as a magnet to draw gold from countries which sorely needed it to money markets where it was already

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excessive. But as we become the single important destination of gold movements our position becomes even more conspicuous and our responsibilities even greater. The causes of this movement may be summarized briefly:

"(1) The rest of the world owes the United States on trade balance in the neighborhood of $500,000,000 a year, which on the basis of the present trade balance in merchandise goods can be paid only by further foreign financing in this market or by shipments of gold.

"(2) Reductions in prices and money value of exports from many raw material producing countries is serving to accentuate trade deficits of those countries.

"(3) A condition of distrust in many money markets encourages short money to stay here rather than move to higher rate markets.

"As a result of these three causes many countries find themselves with a balance of trade which can be met only by gold exports. Foreign commentators are particularly critical of the monetary policies of the United States, because this gold which comes to us does not find its way into use. Imports in the past fifteen months of nearly $400,000,000 of gold have been accompanied by practically no increase in the total loans and investments of the reporting member banks and by a considerable liquidation of loans in country banks, whereas the normal ratio of expansion of credit on gold would have indicated an expansion of perhaps $4,000,000,000. For the gold as it came into the country has been used by member banks to repay Federal reserve credit in one form or another, with the result that in this period the total volume of Federal reserve credit has declined by an amount equal to the gold imports. Thus it may be said that the United States has prevented the usual or normal effect of gold which has come to it.

"The problem of putting gold imports to work is a particularly

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puzzling one because of the obstacles which lie in the way of almost any kind of use which is considered. An expansion of foreign lending requires that investors should be willing to purchase foreign bonds. An expansion of domestic commercial credit requires that business men should be willing to borrow. An expansion of long term bank investments to provide capital which is in demand here and abroad, requires that banks which have recently taken huge losses in securities, and upon which the lesson of liquidity has been enforced by sad experience, should be willing to purchase bonds. The evils to the world of continued gold sterilization, however, are so great as to make desirable a careful scrutiny of Federal reserve open market policy to see whether any action may yet be taken to put more Federal reserve credit to work or at least to avoid any further reduction in the volume of earning assets in the System.

"While it is commonly stated that money conditions have been exceedingly easy in recent months, and while indeed money rates have been at very low levels there has not been over a period of months any consistent surplus of Federal reserve funds pressing for use upon the market. During January there was a substantial surplus in the reserves of New York City banks but early in February this surplus disappeared and was only present consistently again for two weeks in March. Over a period the banks even in the principal centers have not had any considerable amount of unemployed funds on their hands as was the case in previous severe business recessions in this country, as in the 90s and in 1907-08. Question may well be raised whether methods could be devised for keeping in the hands of these member banks some surplus of funds pressing for employment. Even though it is true that the banks in the large centers have had a considerable amount of their funds employed at very low rates, that does not exert a pressure

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for credit growth which lies in an actual surplus of reserves. Furthermore, apart from the relatively easy position of the banks in the larger cities, credit cannot be said to be very cheap or very plentiful generally throughout the country. For one reason or another it has become fairly well bottled up in the larger banks in the larger cities.

"In all these circumstances it has seemed desirable to consider possible means by which gold imports may have their effect on the credit position rather than being nullified, as they have been, by a reduction in total earning assets of the System. Toward that end the New York bank has already, with the approval of the Federal Reserve Board, made a reduction of 1/8 in its buying rate for short bankers bills. It remains to be seen whether this step results in keeping more Federal reserve credit in employment, or indeed whether it will even serve to avoid a further reduction in reserve credit as gold continues to come in.

"In any event it is clear that the seriousness of the present world situation and the central position of the United States in the whole world picture makes it desirable to tax our ingenuity that the Federal Reserve System may put forth every possible effort within its power towards maintaining a measure of credit stability throughout the world and towards eventual business recovery."

Action of Conference. The minutes of the meeting of the Open Market Policy Conference contain the following:

"There was a long discussion of the report by the various members of the conference with particular reference to the present gold trends and the possibility of making the gold standard work more effectively. It was pointed out that in view of the present favorable trade balance of the United States, amounting in recent years to about $500,000,000 a year, the

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only way in which that trade balance could now be paid for was by the shipment of gold since the foreign bond market in this country was practically closed to any new issues. As indicated in the report of the chairman, this country has received over $400,000,000 of gold in the last fifteen months. This gold, however, has not in any way reflected itself in the expansion of member bank loans and investments but rather has been utilized to reduce the amount of Federal reserve earning assets. To that extent it may be said that the normal effects of the import of this volume of gold have been nullified. The question which was discussed by the conference was whether there was any appropriate way in which the Federal Reserve System could take action in order that any further gold imports will have their normal and natural effect upon the loans and investments of member banks.

"Governor Harrison pointed out that this was one of the reasons which had prompted the Federal Reserve Bank of New York in recent weeks to reduce its bill rates, hoping that by that action it would be possible to maintain or even increase the System's bill portfolio in spite of the fact that gold is still coming into the country. He said that to have done nothing with the bill rates would very likely have resulted in a rapid diminution of the bill portfolio of the System as gold came in, not only thereby nullifying gold imports but liquidating the System's earning assets by a substitution of gold, of which we already have a plethora. Governor Harrison then said that it was the purpose of the New York bank, if necessary, to reduce its bill rate as low as one per cent in the hope of accomplishing its objectives of maintaining or even increasing the bill portfolio in the face of gold imports; that it was likely that next week or the following week he would recommend a reduction in the discount rate. The chief purpose of this program was, he stated, not only to tend to reduce

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the amount of gold imports or to make those imports that actually take place more effective, but also, by its effect upon the short time money market, ultimately to make credit, of which there is now plenty, especially in the big centers, more active and more widely distributed. It was felt that this policy sooner or later would necessarily, because of its effect upon the short time money rates, encourage banks and depositors in banks, in spite of their present liquidity, to employ their money, which now is becoming relatively so unprofitable. More specifically, he said that he hoped that this policy might encourage the New York Clearing House banks further to reduce interest rates on deposits.

"In this connection, it seemed to be the general sentiment of the conference that one of the difficulties with the banking situation today is the consequence of the competition of banks throughout the country for increasing deposits at unjustifiably high rates of interest, and that any action which might encourage a more general reduction in those interest rates could not but be helpful to the banking situation as a whole. Governor Harrison then said that if the policy which the New York bank has adopted is to become completely effective it requires System cooperation both in the matter of rates and in the matter of open market purchases of government securities for with bill rates as low as they are, in the event that the System's bill portfolio runs off, even after rates may have been reduced to one per cent, the only effective instrument which the System has left to aid in maintaining the total volume of its credit outstanding is the purchase of government securities. He, therefore, recommended that the conference authorize the executive committee of the conference, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of government securities. In making this recommendation, he

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pointed out that it was not the intention to purchase government securities immediately but rather to attempt to carry out the policy, first, through bill rates, second, through the reduction in discount rate, and then, if necessary, to resort to the purchase of government securities.

"Governor Norris was of the opinion that the proposed policy might not accomplish any great amount of good; that the System was in a strong position; that there was little or no danger of speculation; that he saw no probability of any bad results from the policy; and that in those circumstances he was ready to participate in the policy and to contribute by recommending a reduction in the Philadelphia bank rate to three per cent. His chief misgiving about the adoption of the policy was the danger of a slowness in the reversal of the policy when that might become necessary. This was a danger to which all the members of the conference referred and which Governor Meyer stated he did not believe would be existent in the present circumstances, especially in view of the fact that the country would look upon a reversal of the policy as an evidence that the turn had come in the business depression.

"Governor Young stated that they are even now following the New York reductions in bill rates and in the past have followed in the reduction of discount rates; that he believes it is important to have harmony in the System; and that if New York reduces its discount rate to 1 1/2 per cent, he will recommend the same rate in Boston. He believes that it is inadvisable to buy more government securities at the moment but that even so he would, of course, be willing to buy government securities at the present time from any member bank that needed accommodation in that fashion. He felt that while the program might be right or wrong, the only thing to

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do, in view of all the circumstances discussed by the conference, is to go through with it.

"Governor Fancher stated that the economic situation throughout the world has seriously changed in the past year and is perhaps more serious than ever; the gold flow is most important; and he said that he was willing to go along with any program designed to check it. He also agreed that the System can lend its efforts to make money so cheap as to put it to work. He stated that it was probable that Cleveland would not reduce its discount rate but that the System cannot afford to go along drifting in this extreme situation, and that he was, therefore, in favor of the recommended program.

"Governor Seay stated that he had no great degree of confidence that the proposed policy will accomplish anything very definite or that business recovery is dependent upon any further ease in credit. He intimated that it was possible that a further easing program might be construed as a move in the wrong direction and as a policy of desperation. He did feel, however, that any move that would force banks to reduce rates which they pay on deposits is a most important one, and that if the proposed program fails in accomplishing that, the program itself would fail. He stated that if New York reduces its rate to 1 1/2 per cent, he would recommend a reduction in the Richmond rate to three per cent. He felt, therefore, that while the program may or may not accomplish good, it would probably have very little risks attached to it, and that as far as possible the Richmond bank would follow the program.

"Governor Black stated that, in his opinion, the present situation is extreme and that it was important that we do something; that there were only three courses before the System: (1) that it should follow a policy of further pressure by going up in its rates, (2) that we should maintain

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the status quo, or (3) that we should make further ease. He hopes and believes that the program recommended by Governor Harrison will be effective, at least in part; that it would tend to make the gold which we have more useful; and that it would tend to drive some short time money to work, which is what the situation now needs. He questions whether the Clearing House banks in New York will further reduce their rates, but that even so that should not deter us in the adoption of the program, which he is prepared to follow. He said that the Atlanta bank would follow on bill rate reductions but is not sure what the bank would do about discount rate, but that he is determined to have the Atlanta bank follow the program as far as it can.

"Governor McDougal stated that the gold problem, as discussed by the conference, is an impressive one and should be corrected, if possible; that that is the big question before us. The banking situation is also an outstanding problem; and that while he thinks money rates are now cheap enough and does not see how cheaper rates will stimulate business, nevertheless it may serve to move gold elsewhere. In his judgment, there is no danger in the stock market but fears that low or lower rates may lead banks to take imprudent steps. He was not in favor of buying governments at the moment but that if lower discount rates were established in the Eastern districts, Chicago would probably have to follow.

"Governor Martin said that there is no historical precedent for the present situation, and that it would, therefore, be difficult to predict the results of the proposed policy. He saw some objections to it but, on the whole, the majority of reasons were in favor of it. What objections there are he felt could be overcome if we were prepared to go quickly enough to reversal. He was in favor of trying the experiment and said that

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St. Louis would follow with reductions in the bill rates and probably with the discount rate.

"Governor Geery was somewhat at a loss to foresee the precise results of the proposed policy but was willing to give it a fair trial at this time and was willing to vote for it.

"Governor Talley stated that he still has confidence that gold will finally express itself. It always has in the past sooner or later, and he said we are now at a practical minimum of discounts and have only $180,000,000 of bills to be absorbed. If gold comes beyond that point, it will certainly express itself in the country's credit structure. The proposed program would bring this event nearer. He also agreed that the policy would tend to shove short time funds outside of New York, though probably not into remote country districts. In his judgment, there was some question whether it would be desirable to have the New York banks reduce their interest rates further; that it was more desirable, in his mind, for those banks to send money abroad into short commercial credits. While somewhat apprehensive about attempting the policy, he saw little ammunition left, and he was in favor of trying it.

"Deputy Governor Worthington said that while the Kansas City bank has feltfor some time that money rates have been too low and that there would be no revival in business until rates go up, nevertheless he sees no objection to the program and that it was necessary, in his judgment, now to make some effort to overcome present difficulties. He sees no harm and possible good in the program and that Kansas City would always cooperate with any plan approved by the conference.

"Governor Calkins said that he agreed with the desirability of harmonious action in the System but questioned how harmonious it would be

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unless a program is agreed to without reluctance. He is somewhat skeptical of the proposed program because of the fact that the present situation was so lacking in precedents that it is not possible to compare it with the past. Furthermore, conditions are largely psychological and causes of it go away back to the war at least. He disagrees with the theory that small reductions in bill rates and discount rates would stimulate credit or that it is possible to make the gold standard work in any orthodox fashion when two nations have most of the gold. He referred to the fact that the Federal Reserve System has already contributed in a large measure to the mobility of credit because of the telegraphic transfer system and that indeed this system contributed largely to the inflation during 1928 and 1929. The big question, in his mind, is whether we would be prepared to correct or reverse the policy if it proves to be wrong, but that San Francisco will be prepared to follow and participate in the program, even though not with the wholehearted acquiescence which he thinks so advisable.

"Governors Meyer and Harrison then said that they did not have any fixed certainty of the outcome of the procedure but that it was one in which we had little, if any, volition since it would be forced upon us by the present gold movement sooner or later, in any event.

"After further general discussion and upon recommendation of Governor Harrison, the conference

"VOTED that pending another meeting of the conference, as soon as that may be deemed necessary by the Federal Reserve Board or the members of the conference, the executive committee of the conference should be authorized, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of government securities."

A draft of the recommendation of the Open Market Policy Conference

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was presented to the Board at a meeting of the Conference with the Executive Committee of the Federal Reserve Board on April 30, at which meeting discussion was had with regard to the basis upon which the recommendation of the Conference was made, including a review of the business and credit situation, with a detailed analysis of the adverse influences affecting credit conditions.

Board approval of reductions in discount and buying rates and proposed open market purchases. At a later meeting of the Executive Committee of the Federal Reserve Board held on April 30, Governor Meyer referred to a statement made by the Governor of the Federal Reserve Bank of New York that he expected the directors of his bank at their meeting on that date to request the Board to reduce to 1 per cent the rate established by it as the minimum authorized buying rate for the purchase of bankers' acceptances at that bank, although the bank might not necessarily reduce its effective buying rate which at that time stood at 1-1/4 per cent on the shorter maturities. After some discussion of the possible request from the New York Bank and because of the contemplated absence of certain members of the Board, the Assistant Secretary was authorized, upon receipt of advice of action by the New York directors, to reply that the Board approved a minimum authorized buying rate of 1 per cent for the bank. In accordance with this action of the Executive Committee, the Assistant Secretary on May 1, upon receipt of a request from the directors of the New York Bank that the Board reduce the minimum authorized buying rate for the purchase of bankers' acceptances at the New York Bank to 1 per cent, formally advised of approval of the request by the Federal Reserve Board.

The following letter was received from Deputy Governor Burgess under date of April 30:

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"There have been no changes in the total amount of holdings of government securities in either our own investment account of the System Account since I wrote you last under date of April 24. . . ."

(Secretary's note: On May 6, 1931, the Federal Reserve Board approved for the Federal Reserve Banks of Boston and Philadelphia a rediscount rate of 2% and 3% respectively on all classes of paper of all maturities, effective May 7, 1931.)

On May 5, the New York Bank extended its minimum effective buying rate of 1-1/4 per cent on bankers' acceptances to include maturities up to 90 days, and on May 6 established the following schedule:

1 to 30 days	1 1/8%
31 to 90 days	1 1/4%
91 to 120 days	1 3/8%
121 to 180 days	2%
Repurchase	1 3/8%

(Secretary's note: On May 7th the Board approved for the Federal Reserve Bank of New York a rediscount rate of 1 1/2% on all classes of paper of all maturities, effective May 8, 1931.)

At the meeting of the Board on May 7 consideration was given to the action of the Open Market Policy Conference on April 29, and it was voted to approve the request that the Executive Committee be authorized, if and when it appears to them necessary or advisable to purchase up to $100,000,000 of Government securities.

Developments Concerning Open Market Operations and Discount and Buying Rates, Early-May - Mid-June 1931

Further reductions in buying rate and in discount rates of various Reserve Banks, early-May. Deputy Governor Burgess wrote the Board under date of May 7th as follows:

"Since I wrote you under date of April 30 a total of $22,543,000 of short-term government securities was transferred in accordance with proposal discussed at the Governors Conference from the holdings in the

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investment account of this bank to the participations of several other Federal reserve banks in the System Special Investment Account. . . ."

(Secretary's note: On May 7th the Board approved for the Federal Reserve Bank of Dallas a rediscount rate of 3% on all classes of paper of all maturities, effective May 8th, and on May 8th a rediscount rate of 2 1/2% was approved for the Federal Reserve Banks of Cleveland, Chicago and St. Louis, effective May 9th.)

On May 8 following approval of a reduction to 2-1/2 per cent in the rediscount rate of the Federal Reserve Bank of Cleveland, and upon receipt of advice that the directors of the Federal Reserve Bank of Chicago would take action on that day reducing the rediscount rate at that bank, the Board authorized the Executive Committee to approve for any Federal reserve bank reductions in discount rates of one-half of one per cent at a time down to, but not below 2 per cent.

On May 8, 1931, the Federal Reserve Bank of New York established the following schedule of effective buying rates on acceptances:

1 to 30 days	1 1/8%
31 to 90 days	1 1/4%
91 to 120 days	1 3/8%
121 to 180 days	1 1/2%
Repurchase	1 3/8%
Trade bills	1 1/2%

On May 13 the Federal Reserve Bank of New York established the following schedule of effective buying rates on bankers' acceptances:

1 to 15 days	1%
16 to 120 days	1 1/8%
121 to 180 days	1 1/4%
Repurchase	1 1/4%

On May 14 the following letter was received from Deputy Governor Burgess:

"During the week ended May 13, transfers of $5,000,000 and

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$10,000,000 of government securities were made from the holdings in our Investment Account to the participations of the Federal Reserve Banks of Atlanta and San Francisco respectively, in the System Special Investment Account. . . ."

(Secretary's note: On May 14th the Board approved for the Federal Reserve Bank of Richmond a rediscount rate of 3% on all classes of paper of all maturities, effective May 15th.)

Between May 15 and July 30, 1931, because of the unsettled European situation, the Board of Directors of the Federal Reserve Bank of New York voted to grant, subject to approval of the Federal Reserve Board, credits to various European central banks.

On May 19, 1931, the Federal Reserve Bank of New York established the following schedule of effective buying rates on bankers' acceptances:

1 to 90 days	1%
91 to 120 days	1-1/8%
121 to 180 days	1-1/4%
Repurchase	1%

(Secretary's note: On May 20th the Board approved a rediscount rate of 3% on all classes of paper of all maturities for the Federal Reserve Bank of Kansas City, effective May 21st.)

Letter from New York Bank to Board, mid-May through mid-June.

Deputy Governor Burgess wrote the following letter to the Board under date of May 21:

"There was no change in the System total holdings of Government securities since I wrote you last on May 14. . . ."

(Secretary's note: On May 21st the Board approved for the Federal Reserve Bank of San Francisco a rediscount rate of 2-1/2% on all classes of paper of all maturities, effective May 22nd.)

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Under date of May 28 the following letter was received from Deputy Governor Burgess:

"Since I wrote you on May 21, the total holdings in our own investment account and the System Special Investment Account have remained unchanged at $74,776,900 and $444,468,000 respectively. . . ."

The following letter was received from Deputy Governor Burgess under date of June 4, 1931:

"There has been no change in the total holdings in our own investment account or the System Special Investment Account during the past week. . . ."

The following advice was received from Deputy Governor Burgess under date of June 11:

"The holdings of government securities for the System Special Investment Account are the same as when I wrote you last on June 4, 1931. . . ."

The following letter was received from Deputy Governor Burgess of the New York Bank under date of June 18:

"No changes have occurred in the holdings of government securities for the System Account since my last letter dated June 11, in so far as the total par value is concerned. . . ."

At the meeting on June 19 consideration was given to a request of the directors of the Federal Reserve Bank of New York that the Board reduce to 3/4 per cent the rate established by it as the minimum authorized buying rate for the purchase of bankers' acceptances by the bank, but after some discussion of the matter, action was deferred.

Meeting of Executive Committee, June 22, 1931

A meeting of the Executive Committee of the Open Market Policy

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Conference was held at the Federal Reserve Bank of New York on June 22, 1931.

Memorandum of Chairman. The following is from the memorandum presented at that meeting by the chairman:

"No purchases of government securities have as yet been made under the authority granted at that conference (Open Market Policy Conference, April 27, 1931), but successive reductions in the bill rate were made in the early weeks of May and the discount rates of a number of the Reserve banks were reduced. Reductions in bill rates were an influence toward maintaining the total volume of bills in the Federal Reserve System fairly well until the past few days despite the large volume of gold imports. The figures for bill holdings this year compared with the average for the years 1926-1930, together with the reserve position of the New York City banks, are shown in the attached diagrams. In the past few days bills have been running off as the banks have held large surplus reserves, and as rates on short governments have declined relative to bill rates.

"In the weeks since April 27 two important credit movements have taken place. First, gold imports have been supplemented by large releases of gold held earmarked for foreign account. During the month of May the country's gold stock increased $70,000,000 and during the month of June up to the present, more than $100,000,000, with $26,000,000 additional on the way from Germany. This gold has come out of the bank reserves of foreign central banks principally Germany and the Argentine, at considerable cost to those countries. From the point of view of world economics it is important as was agreed at the last meeting of the Conference that the gold standard should operate normally by this gold being

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put to work as a basis for credit and not nullified by its sterilization through continued reduction in Federal Reserve credit outstanding.

"During this period the gold has, however, been largely absorbed, not so much by a reduction in the total earning assets of the Federal Reserve System as by an increase in the volume of currency in bank tills or for hoarding. This increase in circulation has occurred in a number of districts where there have been bank disturbances, and particularly in the Chicago district. The total such increase amounting to over $100,000,000 has brought the total volume of currency in circulation to a point about $300,000,000 higher than at this time last year. It has been estimated that much if not all this increase has been for hoarding.

"The question now arises whether this expansion in currency circulation is not an abnormal factor for which compensation should be made in order that incoming gold might have a direct influence upon credit conditions.

"The question is complicated by the movement of the system bill portfolio, which is now subject to a number of unusual influences. It is clear that any purchase of government securities or other means of placing more funds in the market might be expected to result, other things being equal, in a diminution in system holdings of bills. Some adjustment of bill rates might assist in maintaining the bill portfolio and preventing it from being reduced quite as rapidly as government security holdings may be increased. The maintenance of a bill portfolio on the other hand should be considerably aided by a recent decision of a foreign correspondent holding more than $300,000,000 of bills in this market to allow these bills to run off, as it may be assumed that the Reserve System will be called upon to absorb some of these bills.

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"At the present moment the reserves of the New York City banks are considerably in excess of requirements. During the next two weeks, however, midyear demands for funds may be expected to draw upon these reserves and fairly quickly to exhaust the surplus.

"It is clear that the purposes of the policies adopted at the April conference have not been fully accomplished though some progress appears to have been made. The movement of gold imports had slackened up until the time difficulties arose in Central Europe leading to large releases of gold from earmark in this country. Rates paid by banks for deposits have been reduced in most important centers. There has been some recovery in the bond market, though this is perhaps due as much to direct action on the part of some New York City banks as it is to any change in the monetary situation. Despite the increase in government securities outstanding there has been no net increase in the total volume of bank credit. Interest rates are on a definitely lower basis than they were in April, but this reduction has not yet evidently led to any considerable shifting of funds from short to long use."

Excerpt from minutes of meeting. The minutes of the meeting of the Executive Committee of the Open Market Policy Conference on June 22 contain the following:

"Governor Harrison outlined developments in recent weeks in the international markets, and particularly in connection with the assistance required by the Austrian Credit Anstalt, and the further succeeding developments in Hungary and in Germany, and indicated that on Friday the Reichsbank reserve was close to its legal minimum, that altogether the Reichsbank had sold us over $100,000,000 in gold, and its total losses of gold and foreign exchange had been approximately $250,000,000. It had begun a policy of credit rationing at home. As a result largely of the gold

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from Germany this country had gained $112,000,000 of gold since June 1, and the total net gain since January 1 amounted to $298,000,000.

"Governor Harrison stated that at the April meeting of the Open Market Policy Conference all appeared to be in agreement that this country was receiving gold which it did not desire, and which other countries could not afford to lose, and that if possible we should find some way to avoid being in the position of receiving this gold without allowing it to produce its usual effects in expanding credit. Since the April meeting incoming gold may be considered to have been partly absorbed by currency withdrawals in connection with bank difficulties. If the influence of these currency withdrawals could be eliminated Federal reserve earning assets would show a substantial reduction. In other words, the gold has been to a degree sterilized, and the aim of the April meeting of maintaining earning assets and putting new gold to work has not been fully achieved.

"Governor Young objected at this point that he did not agree with the conclusions of the April conference with respect to the sterilization of gold.

"Governor Harrison, continuing, pointed out that the other aim of the April conference was to reduce short money rates and thus encourage the shifting of funds to employment in longer use. Partly as a consequence of the action taken there had been large and widespread reductions of rates paid by banks on deposits, and in short time money rates generally.

"He further stated that the events of the past two weeks were in some ways the most critical which the world has passed through since the war, that there had been a threat of a general moratorium and a possible breakdown of capitalism in Europe. In the meantime developments in South America had indicated the danger of a moratorium in certain countries there.

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In these circumstances it seemed desirable to take every possible measure available to the Federal Reserve System for improving the situation. He could see no risk in buying governments at this time, but considerable advantage. It was a particularly good time, because the improvement of psychology and the lift in the commodity markets and the security markets following the announcement of the administration's position as to reparations provided an impetus toward revival which, with proper encouragement, might now bring the turning of the tide.

"As far as the bill holdings of the system were concerned Governor Harrison stated that it would probably be somewhat easier to maintain these holdings because of the fact that the Bank of France was allowing all its bills to mature. Since these holdings constituted something like 25% of the total bills outstanding in the American market, the release of these bills would provide a more ample supply, part of which would presumably come to the Reserve bank. The Bank of France intended, however, to increase its balances at the Reserve banks as its bills matured, an action which would be a tightening factor in the money market. It might be desirable in the near future to make some reduction in bill rates since technically bill rates were becoming out of line with other short term money rates. In fact the directors of the New York bank had already requested from the Federal Reserve Board a lower minimum buying rate on bills, though there was no present intention of reducing the actual buying rate.

"Governor Meyer reported that the statisticians of the Federal Reserve Board computed that from $350,000,000 to $375,000,000 of currency was now hoarded throughout the country as a result of banking disturbances since last autumn. This represented an additional demand for Federal reserve credit which tended to offset the effects of gold imports under the normal working of the gold standard.

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"Governor Norris suggested that the two major objectives of the April program were

(1) to check gold imports, and

(2) to drive down the interest rates paid on deposits by banks.

"There had been great success in pursuing the second objective, though as to the first we appeared to have gone as far as it was possible to go, since gold movements now appeared not to be due to interest rates but rather due to necessity or due to this market being the safest place for funds.

"Governor Harrison pointed out that the first objective of the April meeting was perhaps somewhat broader, and included a desire to make the incoming gold effective and not sterilize it.

"Governor Norris asked whether the real difficulty at present was not the rates for money but lack of demand for credit from high grade borrowers while lenders were timid and hesitant with respect to any other type of borrower.

"Governor Harrison suggested that the pressure of excess reserves sooner or later tends to overcome timidity. Under the traditional gold standard the piling up of funds in any country sooner or later operates toward an expansion of credit which in turn is an influence towards raising the price level. He hoped that the purchase of governments might first avoid sterilizing gold, and might second be a stimulus operating with other favorable recent events towards giving an additionallift toward business recovery.

"Governor Norris raised the question whether the system would not be criticized for taking a step to make money still easier when it was already very easy. Governor Harrison suggested that the proposal simply

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recognized that incoming gold would inevitably produce credit ease, and the effect of the action was to bring somewhat earlier rather than later the normal effects of the gold movement, and thus to avoid in part some of the serious effects on European countries of the loss of gold.

"Governor Meyer suggested that other critics would say that by inaction we were preventing the normal influence of gold.

"Governor Black commented that the action taken at the April 29 meeting at Washington was affirmative, in favor of positive action which was to continue until it accomplished its results. The methods to be followed were first the reduction of bill rates and second the purchase of governments. The results hoped for were a favorable psychological reaction, lower interest rates, and the prevention of the sterilization of gold. The first remedy action through the bill market, appeared to have been exhausted. Business had not shown any recovery. The European situation was worse. The remaining remedy was to buy governments which should be done as a logical continuation of the affirmative policy. The President, by his announcement, had taken a constructive step which should be backed up to the limit, and Governor Black believed that the purchase of governments would give this impression and have this effect.

"Governor Meyer stated that the Federal Reserve Board would be sympathetic to the purchase of Government securities, would have some preference for a larger program of purchases than $50,000,000, and that the Board would regard this program as simply discounting in advance the easing effect of the return of hoarded currency when the period of apprehension was over.

"Governor Young discussed the question of gold sterilization and indicated that he believed that sterilization had been and was natural and

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inevitable under the operation of the Federal Reserve System; that the only way sterilization could be stopped was to have continuously an excess of credit, but that any such excess never lasts but is rather quickly absorbed through a reduction in Federal reserve credit. It is, therefore, impossible to prevent sterilization without adopting the Macauley policy of buying an exceedingly large volume of government securities. He agreed that something should be done to support the action of the President, but did not believe that the purchase of $50,000,000 of Government securities would accomplish this purpose. He did think that there was a great opportunity to deal more directly with the problem by some form of advance to Germany. This might mean announcing the advance on gold in transit, or announcing that we were prepared to make advances to the Reichsbank. Such action would put the injection precisely into the place where needed.

"Governor Harrison stated that it would hardly be appropriate to announce the advance against gold since that was in the nature of temporary and ordinary banking operation which would pass quickly, and moreover might suggest weakness on the part of the Reichsbank. He said that there had not yet been any request from the Reichsbank for a credit though word from abroad indicated that such a request might come before long.

"Governor McDougal stated that while he was impressed at the last meeting by the considerations with respect to gold, he considered the domestic bank situation the most important and pressing element in the situation, and speaking in general he questioned the desirability of putting out more credit now that the market is already glutted. Following the President's announcement, however, we have had an exhibition of the effect upon the state of mind of some positive action. If purchases of governments would be received by the public as supporting the President's announcement

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that would appear to him of great importance.

"Governor McDougal asked what the prospective demands for credit from Europe were likely to be, and Governors Harrison and Meyer reported recent communications from Europe and indicated that any demands from Europe would be in sufficiently limited amounts as to constitute no strain upon the System and leave us free to pursue the policy which seemed best from other points of view.

"Governor Harrison stated that the directors of the Federal Reserve Bank of New York were unanimous in favoring the purchase of government securities at this time.

"Question was raised as to the general effects of buying government securities, on sentiment and otherwise, and there was also discussed the form which publicity might take. The general opinion was that probably no attempt to explain the reason for purchases was desirable. The action would probably be interpreted as part of the general program.

"Governor Harrison suggested that the attitude of the member banks toward purchases of government securities had changed considerably during recent weeks and that two New York City bankers had suggested to him the desirability of buying governments as a means for aiding the situation.

"Governor Talley said that the purchase of government securities might have an important effect in helping banks to maintain their liquidity and so encouraging them to use their funds courageously.

"After some further discussion it was voted to buy up to $50,000,000 of government securities with the understanding that there would be further conference by telephone or otherwise between members of the committee before any purchases were made beyond that amount."

At the meeting of the Board on June 25 further discussion was had

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with regard to the advisability of a further reduction in the minimum authorized buying rates on acceptances at the New York Bank, but no action was taken.

Communications on Open Market Purchases, Late June - July 1931.

Letters from New York Bank to Board, June 25 and July 2. The following information was received from Deputy Governor Burgess in his letter of June 25:

"In accordance with the action taken at the meeting of the Executive Committee of the Open Market Policy Conference on June 22, a total of $40,000,000 of government securities has been purchased this week for System account. . . ."

Under date of July 2 the following letter was received from Deputy Governor Burgess:

"An additional purchase today of $10,000,000 of government securities for System Account completed purchases under the $50,000,000 authorization. As you know $20,000,000 were purchased in the statement week ending June 24. . . ."

Letter from Harrison on Executive Committee action authorizing further purchases. The following letter with regard to action taken by the Executive Committee of the Open Market Policy Conference was received from Governor Harrison under date of July 8:

"The purpose of this letter is to confirm the information already given to you orally that on Monday of this week I consulted with all the members of the executive committee of the Open Market Policy Conference, and they all agreed to a further purchase of $50,000,000 of government securities under the authority arranged at the meeting of the Open Market Policy Conference on April 29. They felt it was desirable for the statement week ended July 8 to show a small increase in System holdings of

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government securities, and approved the suggestion of a purchase of $20,000,000 this week which, with $10,000,000 bought last Friday, would slightly more than offset a reduction which would otherwise be shown because of a reduction of $25,000,000 of government securities in the holdings of the San Francisco bank. These, as you know, had been taken over temporarily to relieve a member bank at the end of the half year.

"In accordance with this authority we have purchased $20,000,000 of governments for delivery yesterday and today, and propose to exercise the additional $30,000,000 authority gradually over the next three weeks.

"It is our belief that these purchases of securities will be helpful psychologically in indicating a continuous policy on the part of the Reserve System to do whatever is in its power toward making effective continued imports of gold. They will also serve in a measure to keep some surplus reserves in the banks of principal cities and thus to maintain a continuous pressure for the free employment of funds."

Letters from New York Bank to Board, July 9 - 30. The regular weekly letter from Deputy Governor Burgess under date of July 9 advised as follows:

"As indicated in Governor Harrison's letter of yesterday, the holdings of government securities in the System Special Investment Account have been increased $30,000,000 since Wednesday of last week. Of this amount $10,000,000 represents completion of the purchase of $50,000,000 decided upon by the Executive Committee on June 22, and $20,000,000 were new purchases Tuesday and Wednesday of this week, under the further $50,000,000 authorization. The exchanges between issues effected during the week totaled $17,000,000. . . ."

At the meeting on July 13 the Board considered a letter dated

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July 9 from the Governor of the Federal Reserve Bank of New York, setting forth the reasons which prompted his board of directors to renew its request that the Federal Reserve Board reduce to 3/4 per cent the minimum authorized rate established by it for the purchase of bankers' acceptances by the New York Bank. Action on the matter, however, was again deferred.

Under date of July 16 the following letter was received from Deputy Governor Burgess:

"Since my last letter dated July 9 further purchases of government securities for the System Special Investment Account amounted to $10,000,000. This makes a total of $30,000,000 of governments purchased under the second $50,000,000 authorization. Changes between issues, which were made during the week, only amounted to $3,000,000. . . ."

Deputy Governor Burgess advised the Board under date of July 23 as follows:

"The total of the holdings of government securities in the System Special Investment Account remains the same as when I wrote you last on July 16, no additional purchases having been made. . . ."

Deputy Governor Burgess wrote the Board as follows under date of July 30:

"The total of the holdings of Government securities in the System Special Investment Account still remains the same, no additional purchases having been made since I wrote you last on July 23. . . ."

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