

Copy to
Ellen SartoriusFEDERAL RESERVE BANK
OF NEW YORK

November 4, 1935.

Dear Governor Eccles:

Supplementing the tentative minutes of the meeting of the Federal Open Market Committee which I mailed you on October 26, I am transmitting herewith for such action as the Board of Governors may wish to take a revised and final draft of the resolution and motions adopted by the Committee having to do with System open market policy.

Very truly yours,

(signed) W. Randolph Burgess

W. Randolph Burgess
Secretary, Federal
Open Market CommitteeHonorable Marriner S. Eccles,
Chairman, Board of Governors of the
Federal Reserve System,
Washington, D. C.

CONFIDENTIAL

RESOLUTION ADOPTED BY FEDERAL OPEN MARKET COMMITTEE, OCTOBER 23, 1935

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still to lend its efforts towards the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and business credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognize that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to control if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the Reserve System as promptly as may be possible to absorb at least some of

these excess reserves, not with a view to checking some further expansion of credit, but rather to put the System in a better position to act effectively in the event that credit expansion should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of short-term Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed, would have the dual effect of absorbing excess reserves and improving the position of the reserve banks, nevertheless, there are two risks in this method. First, that it may be a shock to the bond market, inducing sales of securities by banks all over the country; second, that however it may be explained publicly, it may be misconstrued by the public as a major reversal of credit policy, since this method has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that its advantages do not now justify the risks involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the desirable further extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal

Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognizes that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies.