333.3-a-1

MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE Final Minutes

HELD AT WASHINGTON, D. C., JULY 20, 1933.

7/20/33

The meeting was called to order at 10:45 a. m., with Governor Black in the chair, there being present:

From the Federal Reserve Board
Governor Black and Messrs. Thomas and Szymczak.

From the Federal reserve banks
Governors Harrison, Fancher, Seay, Martin, Geery, Hamilton, McKinney and Calkins, Acting Governor Johns and Deputy Governors Paddock, Hutt, McKay and Burgess.

From the Federal Reserve Board staff
Messrs. Morrill, Wyatt, Goldenweiser, Smead and Carpenter.

Governor Black suggested that the committee which was called together under the terms of the Glass bill should proceed to organize and meet again later with the Federal Reserve Board. The Federal Reserve Board representatives then left the meeting.

It was moved and carried that Governor Harrison be appointed chairman of the committee.

It was agreed that the question of the appointment of a vice chairman be postponed.

It was moved and carried that Mr. Burgess be appointed secretary of the committee.

It was moved and carried that the committee was in favor of the appointment of an executive committee of five and, subject to the approval of the Federal Reserve Board as to there being an executive committee, it was voted that the following should constitute that committee: The representatives of the Boston, New York, Philadelphia, Cleveland and Chicago banks, the representative of the New York bank to act as chairman of the Executive Committee.

Tierans letter 10/4/33 filed 333.3-a-1

The committee then proceeded to consider the tentative draft of regulations governing open market operations, and after extended discussion the following changes were agreed upon unanimously:

Section I - No change.

" II - " "

" III - " "

" IV - (a) That in the last sentence the word "vice chairman" be omitted, and the following clause added after the word "secretary": "...and in the absence of the chairman at any meeting of the committee the committee shall appoint a chairman pro tem."

(b) At the end of the paragraph insert the words "and each Federal reserve bank."

It was also agreed that the attention of the board should be called to a difference between the wording of this paragraph and the law on the question of the attendance of board members at meetings of the committee.

(c) That the words "for its approval" should be inserted after "Federal Reserve Board," in the last line on page 2.

(d) That the words "and as" be omitted in the last line.

(e) That the last clause beginning "and of any other decisions" be omitted.

(f) That in the second line after the words "participate in" there be inserted the words "any specific."

That the last sentence of this paragraph be omitted.

(g) That this entire paragraph be omitted.

Section V - (a) That at the end of this paragraph the following words be added "and to each Federal reserve bank."

(b) That in the last line of paragraph (1) the words "or prescribed" be omitted.

That in the last two lines of paragraph (2) the clause "and shall be subject to change by the Federal Reserve Board in its discretion" be omitted.

That in the first line of paragraph (3), after the words Federal Reserve Board, there be added "and each Federal reserve bank."

That in the second line of paragraph (4) the words "or prescribed" be omitted.

Section VI - That in the second and third lines the words "or prescribed" be omitted.

That in the second line of paragraph (1) the word "sole" be omitted.

That the entire paragraph at the bottom of page five and at the top of page six, relating to the agreement to sell at the request of the Federal Reserve Board, be omitted.

Section VII - That in the third and fourth lines of paragraph (2) the words "or prescribed" be omitted.

That in the second line of paragraph (4), after the words "cable transfers," there be added "for its own account."

That paragraph (5) be omitted entirely.

That the last paragraph be omitted entirely.

There ensued a brief discussion of the regulations relating to foreign transactions. The meeting adjourned at 12:40 p. m.

The meeting of the committee reconvened at 2:15 p. m., with the same persons present.

There was a further general discussion of the regulations relating to foreign transactions. Governor Harrison pointed out that the regulations in a number of cases appeared to go beyond the law and he called attention to some of the difficulties which would be encountered in attempting to operate under these regulations. He stated the view that a much briefer regulation which simply quoted the law or paraphrased it would be much easier to operate and would at the same time leave the Federal Reserve Board free to amend the regulations later, if necessary.

It was agreed that a further discussion of this regulation would be postponed until Friday, and that in the meantime Governor Harrison would review the question of the nature of these regulations with Governor Black.

Governor Harrison then reviewed briefly his recent trip abroad.

Governor Harrison also reviewed discussions he had held with stock exchange authorities and some of the New York bankers on the question of bank margins on security loans, and indicated that effective action in New York with respect to this problem was sometimes hampered by competitive practices of interior banks. He suggested that the governors of other reserve banks discuss with their principal bankers the practices which they were following with respect to margin requirements on security loans, with a view to maintaining sound and conservative practices.

At 4 p. m. members of the Federal Reserve Board joined the meeting, there being present, in addition to the committee, - Governor Black and Messrs. Hamlin, Miller, James, Thomas, Szymczak and O'Connor; also Messrs. Morrill, Goldenweiser, Wyatt, Smead and Carpenter. Governor Harrison then reported, on behalf of the committee, the changes in the draft of open market regulations which the committee suggested.

There was a discussion of the question whether, under the law, a bank was required to designate a particular individual as its representative on the committee, or whether the bank might designate (for example) the principal executive officer, so that the bank might always be represented on the committee. There was also a discussion of the broad question of the extent of the Federal Reserve Board's responsibility for open market operations and particularly the question whether the Federal Reserve Board has the power under the new law to prescribe as well as to approve of such operations.

Governor Black then reported to the meeting a proposal made by the Farm Credit Administration that the Federal reserve banks should purchase Federal Land Bank bonds (possibly under repurchase agreement) in order to enable the Federal Land Banks to purchase farm mortgages from closed banks and thus aid in their reopening. The primary questions with respect to this proposal were the legal status of such purchases and the desirability of the reserve banks acquiring long term assets of this sort. Governor Black asked that the members of the committee give consideration to this proposal.

During the course of the meeting a memorandum prepared by the Division of Analysis and Research of the Federal Reserve Board on current credit conditions was distributed to members of the committee.

The meeting adjourned at 5:22 p. m.

On Friday, July 21, the meeting of the committee reconvened at 10:20 a. m., there being present the same representatives of the reserve banks, except Governor Hamilton and Deputy Governor Paddock, who joined the meeting shortly thereafter.

After a further discussion of the regulation with respect to foreign operations of the reserve banks the following motion was unanimously carried:

> Since the terms of Section 10(g) of the Glass bill set forth explicitly and in some detail the terms and conditions under which Federal reserve banks may engage in foreign transactions, it was the view of the governors that the board issue a regulation simply quoting or paraphrasing this section of the law, with the assumption of course that such regulation be subject to amendment or amplification if in the light of experience such action seems advisable.

There was a discussion of the proposal of the Farm Credit Administration and the governors indicated that they did not believe the proposal was one in which it would be desirable for the Federal reserve system to participate.

At 11:10 a. m. members of the Federal Reserve Board joined the meeting, there being present, - Governor Black and Messrs. Hamlin, Miller, James, Thomas and Szymczak, and Messrs. Morrill, Wyatt and Carpenter.

The resolution adopted by the committee with respect to foreign operations of the Federal reserve banks was read and discussed. In response to a question, Governor Harrison pointed out that the draft regulations which had been submitted to the committee were more detailed and cumbersome and difficult to operate, than he believed necessary under the law. He pointed out that some of the provisions would be embarrassing to effective operations.

Governor Harrison reported the views expressed by the governors present with respect to a purchase of Federal Land Bank bonds by Federal reserve banks.

At 11:27 a. m. Mr. Sprague, Financial Executive Assistant to the Secretary of the Treasury, was invited to join the meeting and to discuss with the governors and the board current problems of Treasury financing. An extended discussion of this subject ensued. During the course of this discussion Messrs. Goldenweiser, Smead and Harlan (of the Treasury) entered the meeting.

Mr. Sprague particularly desired the views of those present with respect to the effect of fluctuations of the dollar on the ability of the Treasury to sell its obligations, and raised the further question whether the present was not a suitable time for interior banks to become interested in making tenders for Treasury bills. He also requested that some of the governors confer with Mr. Acheson, at his home, during the course of the day.

At this point Messrs. Sprague and Harlan left the meeting.

It was moved and carried that the chair appoint a committee of four governors to call on Mr. Acheson.

After some discussion individual members of the board and many of the governors expressed the view that fluctuations in the value of the dollar created a serious obstacle to an adequate program of long term Treasury financing.

It was agreed, however, that it would not be appropriate to adopt a formal resolution on the subject.

Before the adjournment of the meeting there were distributed to the committee and the members of the Board the usual report of operations of the Open Market Committee and the preliminary memorandum on credit conditions.

The meeting adjourned at 12:45 p. m.

The meeting reconvened at 2:23 p. m., there being present from the Federal Reserve Board, - Governor Black and Messrs. Hamlin, James, Miller, Thomas, Szymczak and O'Connor; the same representatives of Federal reserve banks; and from the Federal Reserve Board staff, Messrs. Morrill, Goldenweiser, Wyatt, Smead and Carpenter.

Mr. Goldenweiser reviewed briefly the business and credit situation.

There ensued a discussion of open market policy. Governor Black stated the view that it was desirable to continue the present power of the committee and that in view of the uncertainties of the situation it was extremely difficult to tell in advance how much of that power it might be desirable to use. Each of the governors was asked to give his view and they all concurred in the general view expressed by Governor Black, though a number also stated that they would prefer to see no further purchases and favored a conservative course. Governor Seay expressed the view that if further extensive operations were undertaken they should be at the request of the Treasury.

In response to a question by Mr. Miller as to what might be the basis for decisions by the executive committee as to purchases, Governor Harrison stated (1) that there was a government program broadly designed to result in raising prices and that the System's object should be to facilitate and not deter that program; (2) that at the moment there were large excess reserves, so that on strictly monetary grounds there was no occasion to buy at present; (3) that a further serious decline in prices of securities and commodities might affect confidence and that some purchases might be helpful under these conditions; (4) that other conditions might arise making purchases desirable, such as a risk of failure of some government issue, too great a tightening of money rates due to a transfer of money out of New York, or other unforeseen events. In view of these considerations a renewal of the authority appeared desirable. Individual members of the Federal Reserve Board expressed general agreement with these views.

There was some discussion of the probable action of the board with respect to the issuance of a regulation dealing with rates of interest on time deposits, and it was indicated that a tentative draft would be ready shortly and would be sent to the Federal reserve banks for comments.

A question was raised as to the effect of the Glass bill on the service of bankers as Class A directors, and it was indicated that the board's counsel had not yet made a ruling on that matter.

Governor Hamilton raised the question whether there had been any indication that the reserve banks would be called upon for any special work in connection with the examination of banks for the Insurance Corporation. The secretary of the board replied that there had been no such indication, but that the prospect of additional examination work made it desirable for the Federal reserve agents to consider strengthening their examining forces.

Mr. O'Connor requested that each of the governors should send him the names of a number of outstanding state bankers in each state that he might have a list of people from whom he could obtain information.

There was a brief discussion of the possible effects of increases in brokers loans on credit conditions and the procedures which might be adopted to deal with them.

The representatives of the Federal Reserve Board left the meeting at 3:08 p. m.

Governor Harrison requested Governors Fancher, Seay, Martin and Calkins to visit Mr. Acheson.

After a further discussion of open market policy it was unanimously voted to be the sense of the committee that, subject to the approval of the Federal Reserve Board, the resolution of the Open Market Policy Conference of April 22, as modified by telegraphic vote after the executive committee meeting of May 23, authorizing the executive committee to make purchases of up to one billion dollars of government securities be reaffirmed and continued for the unused portion of the authority.

It was agreed that it would be undesirable to include in this resolution any authority to sell, though there was some discussion of the importance of being prepared to sell securities promptly if the occasion arose.

There was some informal discussion of the program to be pursued in the present week, some of the governors expressing the opinion that, in view of the severe reaction in the commodity and security markets, it might be wise to continue purchases for the current statement week rather than showing a change of policy by discontinuing purchases altogether. It was agreed, however, that this question could be determined more wisely later.

Governors McKinney and Hamilton discussed informally the question of loans by reserve banks to agricultural credit corporations and after general discussion those present appeared to be in agreement in seeing no objection to such loans being made by reserve banks.

Governor Calkins raised the question whether some action ought to be taken with respect to the report of the committee on branch banking, and it was agreed that the Federal Reserve Board be asked to furnish the governors with copies of this report in order that a decision might be made as to whether or not it should be published.

Governors Fancher and McKay were asked to serve as an informal committee to confer with the Federal Reserve Board as to progress on the pension plan.

The meeting adjourned at 3:45 p. m.

W. Randolph Burgess,
Secretary, Federal Open Market Committee.