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Final Minutes

MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C., OCTOBER 22, 23, and 24, 1935

The meeting was called to order on October 22 at 10:30 a. m., there being present:

Governor Harrison, chairman, Governors Young, Fleming, Seay, Newton, Schaller, Martin, Geery, Hamilton, and Calkins.
Deputy Governors Gilbert and Burgess, secretary.
Mr. Strater was also present.

The preliminary memorandum on credit conditions and the report of operations were submitted.

A letter was read from the Board of Governors of the Federal Reserve System pointing out the requirements of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935 with regard to the record to be maintained in connection with the determination of open market policies. A copy of the letter is attached herewith.

After discussion it was unanimously

VOTED that to meet the requirements of law a record be kept, as suggested by the Board of Governors of the Federal Reserve System, setting forth such actions as may be taken by the committee upon questions of policy relating to open market operations, the votes taken in connection therewith, and the reasons underlying each such action, and that this record be transmitted to the Board of Governors of the Federal Reserve System.

Thereupon Governor Harrison left the meeting to report this action to Governor Eccles and returned shortly indicating that Governor Eccles had agreed to the suggested procedure on behalf of the Board.

At this point Governor Norris entered the meeting.

It was unanimously

VOTED that the report of operations be accepted and placed on file, and that operations in the System's special investment account since the last meeting of the committee be ratified.

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The preliminary memorandum on credit conditions was also accepted and placed on file.

There then ensued an extended discussion of the general credit situation and particularly of the existing large excess of bank reserves and methods which might be employed to absorb part of these reserves in order that the System might be in a position to deal more readily with any future overexpansion of credit. During the course of this discussion the different members of the committee reviewed the advantages and disadvantages at this time of a sale of government securities or changes in reserve requirements of member banks, a number of the governors expressing preference for the first method and a number expressing preference for the second, while still others were doubtful of the desirability of any action at this time. The discussion also involved consideration of the various methods which might be employed in carrying out either of these two general lines of action, the desirability of a public statement in connection with them, and the relationship between Federal reserve policy and Treasury policy.

The opinion was expressed by a number of the governors that some definite action at this time to reduce the amount of excess reserves would be reassuring to the public as indicating that those charged with responsibility in connection with monetary policy were prepared to exercise the instruments of restraint in their control if and when necessary.

The meeting adjourned at 12:57 p. m. for lunch.

At 2:30 p. m. the meeting reconvened, there being present the same persons as in the morning meeting. Discussion was resumed of the same questions as in the morning meeting.

In the course of this discussion a number of those present emphasized that as far as the credit picture was concerned there appeared to be no necessity for any reversal in a policy now directed toward stimulating recovery, but the question was whether without impeding recovery there was something that could be done to pave the way for later control, and there was the further question whether any action that was taken could be explained publicly in such a way as to avoid misunderstanding as to its real purpose.

After a further general discussion it was agreed that Governor Eccles should be asked to join the meeting for an informal discussion prior to any attempt to formulate the views of the meeting.

At 3:10 Governor Eccles entered the meeting.

Governor Harrison summarized for him the opinions which had been expressed in the course of the preceding discussion. Governor Harrison's statement was supplemented by a number of the other governors.

Governor Eccles reviewed in some detail the recent changes in the credit situation and the problems now confronting the Federal Reserve System.

With respect to the instruments available to deal with excess reserves Governor Eccles was inclined to favor increase in reserve requirements as the most feasible method, though the dangers of possible public misunderstanding should receive serious consideration.

After some general discussion Governor Eccles left the meeting at 4:55.

It was agreed that the meeting would reconvene in the morning and that in the meantime those present should consider the form of a resolution which might set forth the opinion of the committee.

The meeting adjourned at 5 p. m.

At 10:15 on October 23 the meeting reconvened with the same attendance as on the preceding day. There was a brief discussion of the maturity of securities held in the System account, and the accounts of the several Federal Reserve Banks. It was suggested, and a number of those present agreed, that it might be desirable for the System when appropriate opportunity arises to increase its holdings of longer term securities provided an adequate amount of short term securities is always held for purposes of control. The point was made that some increase in long term holdings might at times aid in a proper adjustment between the rates on short term and longer term securities and at the same time might aid in maintaining the earnings of the Reserve Banks should there be further declines in yields on government securities.

Governor Harrison reported that he had talked with Mr. Coolidge, the Under Secretary of the Treasury, to see if the Treasury had any views with respect to Federal reserve policy at this time, and that Mr. Coolidge had indicated that he believed the Treasury would not desire to take any position which would in any way tie the hands of the Federal Open Market Committee.

There ensued a discussion of the resolution which might be adopted as setting forth the views of the committee, and drafts prepared by Governor Norris and Governor Young were read and discussed. A draft prepared by Governor Harrison was then read and, after discussion and amendment it was unanimously agreed that this resolution be the sense of the meeting, with the understanding that a further draft should be submitted for review as to detailed wording.

At 12:00 m. the meeting was adjourned as a meeting of the Federal Open Market Committee and reconvened as a Governors Conference.

At 12:50 p. m. the meeting reconvened as a Federal Open Market Committee meeting. The resolution previously considered was read as amended and unanimously adopted, as follows:

> 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.

After discussion it was agreed that the authority previously granted to the executive committee of the Federal Open Market Committee to make shifts of maturities in the System open market account should be continued, as necessary in the proper administration of the account, to enable the executive committee to replace maturities from time to time and to make shifts in maturities to meet changing market conditions. Therefore, it was unanimously

> VOTED that superseding previous authorizations, the executive committee be authorized to make shifts between maturities of government securities up to $300,000,000, provided that the amount of securities maturing within two years be maintained at not less than $1,000,000,000 and that the amount of bonds be not over $500,000,000.

It was also agreed that authority should be given to the executive committee to buy or sell (which would include authority to allow maturities to run off) securities for System account up to a certain amount, in order that the committee might be in a position to act promptly if circumstances not now foreseen should make action appear desirable before a further meeting of the full committee. Therefore, it was unanimously

> VOTED that the executive committee be authorized to buy or sell up to $250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System.

This motion had the effect of continuing a similar authority granted at the meeting of the committee on May 27.

At 1:10 p. m. the meeting adjourned.

At 10:09 a. m. on Thursday, October 24, the meeting reconvened as a joint conference of the Board of Governors of the Federal Reserve System and the Federal Open Market Committee. There were present:

From the Board of Governors of the Federal Reserve System:
Governors Eccles, Hamlin, Miller, James, Thomas, Szymczak, and O'Connor.

From the Federal Open Market Committee:
The same persons as were present on the preceding two days.

Under Secretary Coolidge.

From the staff of the Board of Governors of the Federal Reserve System:
Messrs. Morrill, Goldenweiser, Bethea, Carpenter, and Thompson.

Two memoranda prepared by the Board's staff on "Business and Credit Conditions" and on "International Gold and Capital Movements" were distributed.

Governor Harrison reported to the meeting the action of the Committee on the preceding two days, summarizing the subordinate motions and reading in full the resolution with respect to credit policy.

Under Secretary Coolidge outlined to the meeting the purposes of the Treasury with respect to the sale of savings bonds, and after a brief discussion of this subject, left the meeting.

There ensued a brief general discussion of the conclusions of the Federal Open Market Committee.

At 11:04 the meeting adjourned as a joint conference of the Board of Governors of the Federal Reserve System and the Federal Open Market Committee.

W. Randolph Burgess,

Secretary.