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Minutes of Meeting of Open Market Investment Committee

Washington, D. C., November 12, 1929333.-b-2
Final Minutes

11/12/29

The meeting was called to order at 10:50 a. m. there being present Governor Harrison, chairman, and Governors Harding, Norris, Fancher and McDougal, and Mr. Burgess, acting secretary.

The preliminary memorandum and the secretary's report, copies of which are attached, were presented and considered.

Governor Harrison then reviewed the events of recent weeks in the New York market, with special reference to the various steps which had been taken in that time to prevent any shortage of money or advance in money rates in face of the tremendous shift in loans to New York City banks from out-of-town banks and other lenders.

In this connection Governor Harrison discussed particularly the purchase of large amounts of government securities by the Federal reserve banks during this period. He reported that as short term issues had been difficult to obtain in large blocks, it was necessary to acquire some of the longer term issues and indicated that this was a factor which would have to be kept in mind in any extensive program of purchases.

After further extended discussion the following resolution was unanimously adopted:

"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.

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"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 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 thereof 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."

At 1:00 p. m. Governor Harding left the meeting and the meeting adjourned at 2:05 p. m.

At 2:40 the members of the Open Market Investment Committee met with the Federal Reserve Board. In addition to those mentioned above there were present Governor Young and Messrs. Hamlin, Miller, James, Cunningham, Goldenweiser, McClelland, Smead and Noell.

The Secretary of the Board read to the meeting the resolution adopted by the Open Market Investment Committee. There ensued discussion of the general policy of purchasing securities for the purpose of reducing rediscounts, with a view of facilitating or paving the way for easier money conditions; the possibility of emergencies arising which would have to be met rapidly; and also the extent to which the committee should be authorized to administer any policy adopted.

The meeting adjourned at 4:50 p. m.

W. Randolph Burgess,
Acting Secretary.