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Minutes of Meeting of Governors of Federal Reserve Banks
Called by Federal Reserve Board as a Meeting of the Open
Market Investment Committee, Washington, D. C.
January 28 and 29, 1930

A meeting of Governors of Federal reserve banks called by the Federal Reserve Board as a meeting of the Open Market Committee convened at 10:45 a. m. on Tuesday, January 28, with the Federal Reserve Board.

There were present from the Federal Reserve Board

Governor Young and

Messrs. Cunningham, Hamlin, James,
Miller, and Pole,
Messrs. Goldenweiser, McClelland,
Smead, and Carpenter, of the
Federal Reserve Board staff.

Representing the banks there were present

Deputy Governor Paddock
Governors Harrison, Norris, Fancher, Seay,
Black, McDougal, Martin, Geery,
Talley, and Calkins.

Mr. Burgess, acting secretary.

The meeting proceeded at once to a discussion of the credit situation and Federal reserve policy, Governor Young stating that the committee was operating under the old procedure and not under the procedure suggested in the Federal Reserve Board's letter X-6484 of ~~November~~ Jan 23, which has been sent to each Board of Directors for their comments.

Dr. Goldenweiser reviewed various aspects of the credit situation, making reference to a number of charts.

Governor Young then called on the governors in turn to express their opinion on a proposal which the Board had before it for a reduction in bill rates and on the general question as to whether the Reserve System should adopt a program for easing the credit situation further or not.

Governor McDougal indicated that an easing policy would be worth considering if it would benefit business but he felt the present rates were not restrictive and that there should be a further liquidation of

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collateral loans.

Governor Norris believed that open market purchases had been carried far enough, that the objects of the November policy had been achieved, and he would rather see lower money rates come of their own accord than as a result of Federal reserve interference. He saw no harm in the lower bill rate if for the purpose of preventing bill holdings in the System from decreasing.

Mr. Paddock said he believed there was more clearing up to be done, that they favored a policy of marking time and would not favor carrying the easing process any further now.

At this point Secretary Mellon joined the meeting.

At Governor Harrison's suggestion the report of the Secretary of the Open Market Committee was distributed and the preliminary memorandum to the committee was distributed and read aloud. Governor Harrison stated that the proposal for a reduction in the buying rate for bills was made by the Federal Reserve Bank of New York in order to prevent a decrease in the bill portfolio and an increase in rediscounts such as might lead to a firming of money rates or at least an interruption to the natural downward trend of interest rates. It was not suggested as a program which would artificially force a more rapid easing of credit conditions although it seemed likely that the directors of the New York bank might also wish soon to reduce the discount rate.

Governor Fancher believed the November program had been pretty well carried out, that further easing might be desirable in due course with perhaps a reduction in their discount rate in February. He believed the present discount rate was encouraging needed liquidation. He saw no objection to a slight reduction in the bill rate.

Governor Talley stated that he was very well satisfied with the program as it had been carried out and with the present discount rate in his district, that he was opposed to further specific steps toward ease at present, that he could see the possible desirability of an adjustment of bill rates to take care of a temporary congestion in the market.

Governor Martin said he would like to continue his discount rate at the present level as several groups of banks were tied up with loans after droughts and also other groups with security loans, and high rates would assist in liquidating this situation. He believed the results of the program had been attained and would not now favor changes in discount rates or in bill rates.

The meeting adjourned at 1:05 to meet again at 2:30.

The meeting reconvened at 2:30 p. m.

Present: Governor Young

Secretary Mellon

Messrs. Cunningham, Hamlin, James, Miller, and Pole,
Messrs. Goldenweiser, McClelland, Smead, and Carpenter of the Federal Reserve Board staff.

Deputy Governor Paddock
Governors Harrison, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, Talley, and Calkins,
Dr. Burgess, acting secretary.

Governor Black stated that his bank still desired a continuation of credit ease. He would prefer easing through bills but, if possible, would reduce the rediscount rate also. Business was not good in the Atlanta District, especially with the smaller businesses, nor was the mental attitude in business good and he believed that business and this mental attitude would be improved by easier money.

Governor Geery said that his rate was still well below the commercial rate for money, that the banks still have loans they want to liquidate and for that reason wish high rates continued. He favored a reduction in the bill rate if not to the point of interfering with the distribution of bills.

Governor Seay said that his directors were in sympathy with the open market program but the majority had favored a continuation of their rate at 5 per cent. He believed System policy should be directed to continuing the present trend of ease rather than positive action in either direction. He thought pressure on security loans would continue regardless of the rate. He should like to see to it that no hardening of rates took place toward the spring season and thought this could be done best through bills though it was possible that it might be desirable to buy further securities, although he would be very reluctant to see it.

Governor Calkins stated there had been a more than usual liquidation in his district. He saw no occasion in the district for further rate change. The open market policy appeared to have been accomplished. If more ease was necessary it could best be done through the bill rate. There was, however, no occasion for any acute move.

There ensued an extended discussion on general policy in the course of which Governor McDougal stated that he wished to amplify his previous statement to indicate that he believed the banks should have flexibility in their bill rates and he had not previously understood that the suggestion for a reduction in the bill rate was simply for a change in the minimum fixed by the Federal Reserve Board. He believed that the Board should give the banks an operating latitude in the bill rate.

This meeting adjourned at 4 p. m. and was shortly resumed with only the representatives of the reserve banks present. The committee was requested by Governor Young, among other things, to report to the Board

(a) The advantages of the change in the regulations relative to reserve calculations suggested by the governors at the last conference.

(b) What should be the complexion of the committees recommended on reserves and chain banking?

The meeting first discussed the Board's letter of January 23 relating to open market procedure, the telegram which had been sent calling the meeting, and what should be the understanding as to the character of the meeting. At 5 o'clock Governor Young attended the meeting by request to discuss with it the status of the committee and his understanding of the Board's letter. As a consequence of this discussion it was agreed to go forward with the discussion of credit conditions and policy with the understanding that those present were not operating in any way under the procedure suggested by the Board's letter of January 23, but that the meeting was informal and under the old procedure of the Open Market Committee with the addition of the other Governors as members. The meeting adjourned at 6 p. m.

In the evening representatives of seven of the banks met at the Hotel Carlton and drafted a provisional memorandum of conclusions.

The meeting was again called to order at 10 a. m. January 29.

Present: Deputy Governor Paddock
Governors Norris, Fancher, Seay,
Black, McDougal, Martin,
Talley, and Calkins

Mr. Burgess, acting secretary.

In the absence of Governor Harrison, Governor Norris was elected chairman of the meeting and the meeting proceeded to discuss the tentative resolutions which had been drafted the night before.

At 10:20 Governor Geery entered the meeting and at 10:35, Governor Harrison.

The following findings were then adopted, all those present voting Yes except Governor Martin.

"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 there-in 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.

"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 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 seasonal demand for additional reserve credit."

On the question asked by Governor Young, concerning the benefits from a change in procedure in computing reserves, it was agreed that the several governors would write to Governor Young on their return to their banks. The meeting adjourned at 12 o'clock and reconvened at 12;10 o'clock with the Federal Reserve Board, there being present in addition to those named above Governor Young and Messrs. Cunningham, Hamlin, James, and Miller of the Federal Reserve Board, and Messrs. Goldenweiser, McClelland, Smead, and Carpenter.

The secretary read the findings adopted by the governors and the meeting proceeded to an informal discussion of the interpretation of this report. The meeting adjourned at 1 p. m. to reconvene in the afternoon.

The meeting reconvened at 3 p. m. with the same persons present except that Governor Norris and Governor Harrison were absent and Messrs. Wyatt and Noell attended. There ensued an extended informal discussion, first, as to the extent of leeway which the Federal Reserve Board should give the Federal reserve banks in adjusting bill rates without the necessity for Federal Reserve Board approval and, second, as to the probable practical effects of a reduction in the Federal Reserve Board's minimum buying rate for bills.

A further discussion related to the complexion of the special committee to study bank reserves. It was agreed that Mr. Smead should be asked to participate in the study and it was also suggested that Dr. Goldenweiser participate and that two or three others be added from individual reserve banks. It was agreed that the study should be treated as a study undertaken by the Federal reserve banks and that the expenses of the study should be prorated among the banks. It was agreed that Governor Calkins should take charge of arrangements necessary to carry forward the study.

The meeting adjourned at 4:45 p. m.

W. Randolph Burgess,
Acting Secretary.