CONFIDENTIAL

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Final minutes

MINUTES OF THE MEETING OF THE OPEN MARKET POLICY CONFERENCE
HELD AT THE OFFICES OF THE FEDERAL RESERVE BOARD, WASHINGTON, D. C.
SEPTEMBER 25, 1930

9/25/30

The meeting was called to order at 10:30 a. m., there being present Governors Harrison (chairman), Young, Norris, Fancher, McDougal, Black, Martin, Bailey, Geery, Talley and Calkins, and Deputy Governors Peple and Worthington.

Governor Harrison referred to the discussion which had taken place the day before at the conference of governors with respect to the procedure followed by the open market policy conference since the last meeting of the conference in June, and suggested, as had been the sense of the governors conference, that the procedure to be followed by the open market policy conference should be one which contemplates the formation of a general System policy by the whole conference with a mandate to the executive committee to execute the policy so as to attain the objectives agreed upon by the conference. Such a procedure would avoid the necessity of calling a new meeting of the whole conference except at such times as consideration of a change of general policy appeared to be necessary either to the Board or to the members of the conference. At the same time it would empower the executive committee to take such steps as might be deemed necessary by it to execute the policy without the need for calling a meeting of the whole conference whenever it might be necessary to buy or sell securities in order to carry out the policy agreed upon. While no formal vote was taken it appeared to be the sense of the conference that this would be the most practicable procedure to be followed in the formation and execution of open market policies of the System.

#4 Governor Harrison reviewed the status of foreign accounts with the Federal reserve banks, and pointed out the changes which had taken place since the last meeting of the conference. He also discussed the general position of the various central banks of issue abroad, calling attention to the fact that the gold reserves of most of those banks have not only increased in percentage but in actual

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amount during the past year. The increase in the reserve percentage of most of these foreign institutions is due not only to an increase in the actual gold supplies of the respective banks but also to a very substantial decrease in note and deposit liabilities, the decline ranging in most cases from 25% to 50% from a year ago. He pointed out that this, of course, reflected the depression in business and trade which exists in those countries and throughout the world. This depression was further evidenced by the figures which were presented to indicate the substantial decline in both the export and import trade of most every one of the principal countries in Europe, South America, and the Far East."

The report of the secretary of the open market policy conference outlining all of the operations for the System account since the last meeting of the conference, which was submitted to the members of the conference the day before, was considered and by vote of the conference was accepted and placed on file.

The preliminary memorandum dated September 23, 1930, which had also been submitted to the conference the day before by the chairman was then discussed at some length and by vote of the conference was accepted and placed on file.

"Governor Harrison then stated that it was in order, on the basis of the facts submitted in the preliminary memorandum, as well as in the discussion of all of the governors, to consider the formation of an open market policy for the System, it being pointed out that at the present time the conference has authority to purchase not to exceed $50,000,000 in order to maintain the present easy money position. The question before the conference was whether there should be a change in this policy and if so what that change should be.

"Governor McDougal stated that he believes it to be important that the executive committee should have (power to operate, that is,) authority both to buy and sell government securities, when necessary. He added, however, that in his opinion money conditions in the principal centers are now too easy and that this was probably largely due to the operations of the Federal reserve banks in the open market, but that he would not at the moment favor the sale of any government securities. He felt nevertheless that it might be advisable to allow some of the System's holdings of bills to fall off. Governor Young stated that this could probably be done only by increasing the acceptance rate. Both Governors McDougal and Norris felt that there might be some advantage in a slight increase in the bill rate. Governor Harrison mentioned, however, that any such action would necessarily have a tightening influence and that such action should be made dependent entirely upon whether or not the System was to agree upon a general firming money policy. Governor Norris, after a brief discussion of his views with regard to open market policy, read to the conference the following memorandum which he had prepared and which he stated had been approved by his directors. After discussion of this memorandum, upon the suggestion of Governor Young, it was informally agreed that it should be made a part of the record of the conference. A copy of that memorandum is hereto attached.

Before adjournment for luncheon, Governor Harrison stated that he hoped that after lunch the conference would be prepared to vote on a definite open market policy for the System, that is, (1) whether the System should lend its influence towards further easing of the credit situation, (2) whether it should seek to maintain the status quo, or (3) whether it should decide upon a firming money policy.

At 1:15 p. m. the conference adjourned to reconvene at 2:30 p. m.

At 2:30 p. m. the conference reconvened (with Governors Bailey, Black and Talley absent) and continued its discussion of the business and credit situation in relation to the System's open market policy.

"Governor Fancher said that while credit and money rates were very easy in the larger cities in his district and in his opinion perhaps a little too easy, he did not think that now is a time to sell government securities. Governor Calkins in summarizing the situation said that he would not be in favor of any further easing at this time nor would he be in favor of any tightening, that while money rates are now very easy, nevertheless it was his judgment that this is not the time to change the System policy and that he favors maintaining the status quo. Mr. Peple said that he and Governor Seay, who could not be present at the conference, were in substance in favor of the views expressed by Governor Calkins. Governor Geery agreed with Governor Calkins, but said that he would prefer to see member banks borrow a little more from the Federal reserve banks before any purchase of securities was undertaken. Governor Young stated that, in his opinion, credit conditions are very easy but that this is no time to attempt any change, that he favors maintenance of the status quo, and that in order to execute such a policy he feels that the System should be in a position either to buy or sell securities. It was his judgment, however, that there would be no real opportunity to sell securities until the turn of the year when the normal return flow of credit and currency would perhaps afford appropriate opportunity for some sales of securities. Mr. Worthington stated that Governor Bailey was of the opinion that some action toward firming would be wise when possible but that the question of time was the important factor and that the turn of the year would probably be the right time to take such action. Governor Harrison stated that he was in agreement with what appeared to be the opinion of the majority of the members of the conference, that quite regardless of the past, the present policy of the System should be to maintain the present easy money position in the principal money centers and that while the System should be prepared to buy or to sell government securities in order to maintain that position, nevertheless there appears to be no reason at the present time either to buy or to sell. He then outlined a report with recommendations which he submitted for the consideration of the conference and after some discussion (during the course of which Governors Talley and Black rejoined the meeting), the open market policy conference voted to approve the following report:

"The Open Market Policy Conference has considered the preliminary memorandum submitted to it by the chairman and has reviewed at length general business and credit conditions.

"In view of the continued severe depression in business activity, trade, and commodity prices in this country, as well as the rest of the world, it is the sense of the conference that it should be the policy of the System, so far as possible, to maintain the present easy money rate position in the principal money centers, it being the opinion of the conference that under present conditions no further easing of such money rates would be advisable and that no firming of such rates would be desirable whether because of seasonal requirements, gold exports, or other causes. It is, therefore, recommended that the executive committee be authorized, if necessary, to supplement bill purchases by the purchase of government securities in the event that the seasonal demand for Federal Reserve credit, gold exports, or other factors should tend unnecessarily to tighten present money rates, and that in the event that any conditions should develop which would require sales of government securities to execute this policy, the executive committee should be authorized to make such sales. It is understood, however, that if the committee should have to buy or sell more than $100,000,000 of government securities to maintain the status quo, new authority should be procured in accordance with the prescribed procedure.

"It is recommended that there should be another meeting of the Open Market Policy Conference early in January, unless a change in conditions suggests to the Board or the members of the conference the advisability of an earlier meeting." "

Governors McDougal and Calkins voted in the negative and Governor Talley asked to be recorded as not voting. Governor McDougal explained that he voted "no" on the ground that he thought some firming of rates might be advisable at this time. Governor Calkins explained that his negative vote was based upon the fact that authority to buy or sell up to $100,000,000 rather than $50,000,000 might be construed as a further easing policy rather than a policy to maintain the status quo inasmuch as the committee now has authority to buy up to only $50,000,000.

The open market policy conference adjourned at 3:30 p. m. to meet in joint conference with the Federal Reserve Board and the conference of Federal Reserve Agents.

The meeting reconvened at 3:45 p. m. with the Federal Reserve Board and the Federal Reserve Agents.

Governor Harrison reported in some detail the discussion of the members of the open market policy conference concerning present business and credit conditions in relation to the System's open market policy, and after summarizing the views of different members of the conference, he reported the action taken by the conference, recorded above. Governors McDougal and Calkins explained their reasons for voting in the negative and Governor Talley stated the reasons why he had asked to be recorded as not voting.

There ensued a general discussion of credit policies in which one of the members of the Federal Reserve Board asked whether the conference had considered the advisability of a very much more active open market program involving substantially larger purchases of government securities with a view to forcing upon the country a more active use of credit through the stimulus of such purchases of securities by the System. Governor Harrison explained that that had not been considered specifically because of the fact that the majority of the conference felt so strongly that there is no need for any further easing of the present easy money rate position at the present time.

The meeting adjourned at 4:45 p. m.

George L. Harrison,
Chairman.