~~CONFIDENTIAL~~

333.-C-2
Final Minutes
6/22/31

~~TENTATIVE - SUBJECT TO CORRECTION~~
See letter July 20, 1931

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE OPEN MARKET POLICY CONFERENCE HELD AT THE
OFFICE OF THE FEDERAL RESERVE BANK OF NEW YORK
JUNE 22, 1931.

The meeting was called to order at 11:10 a. m., there being present Governors Young, Harrison, Norris, Black, and McDougal, Governor Meyer of the Federal Reserve Board, and Deputy Governor Burgess.

Governor Harrison outlined developments in recent weeks in the international markets, and particularly in connection with the assistance required by the Austrian Credit Anstalt, and the further succeeding developments in Hungary and in Germany, and indicated that on Friday the Reichsbank reserve was close to its legal minimum, that altogether the Reichsbank had sold us over $100,000,000 in gold, and its total losses of gold and foreign exchange had been approximately $250,000,000. It had begun a policy of credit rationing at home. As a result largely of the gold from Germany this country had gained $112,000,000 of gold since June 1, and the total net gain since January 1 amounted to $298,000,000.

Governor Harrison stated that at the April meeting of the Open Market Policy Conference all appeared to be in agreement that this country was receiving gold which it did not desire, and which other countries could not afford to lose, and that if possible we should find some way to avoid being in the position of receiving this gold without allowing it to produce its usual effects in expanding credit. Since the April meeting incoming gold may be considered to have been partly absorbed by currency withdrawals in connection with bank difficulties. If the influence of these currency withdrawals could be eliminated Federal reserve earning assets would show a substantial reduction. In other words, the gold has

Trans. letter 7/20/31 filed 333.-C-2

been to a degree sterilized, and the aim of the April meeting of maintaining earning assets and putting new gold to work has not been fully achieved.

Governor Young objected at this point that he did not agree with the conclusions of the April conference with respect to the sterilization of gold.

Governor Harrison, continuing, pointed out that the other aim of the April conference was to reduce short money rates and thus encourage the shifting of funds to employment in longer use. Partly as a consequence of the action taken there had been large and widespread reductions of rates paid by banks on deposits, and in short time money rates generally.

He further stated that the events of the past two weeks were in some ways the most critical which the world has passed through since the war, that there had been a threat of a general moratorium and a possible breakdown of capitalism in Europe. In the meantime developments in South America had indicated the danger of a moratorium in certain countries there. In these circumstances it seemed desirable to take every possible measure available to the Federal Reserve System for improving the situation. He could see no risk in buying governments at this time, but considerable advantage. It was a particularly good time, because the improvement of psychology and the lift in the commodity markets and the security markets following the announcement of the administration's position as to reparations provided an impetus toward revival which, with proper encouragement, might now bring the turning of the tide.

As far as the bill holdings of the system were concerned Governor Harrison stated that it would probably be somewhat easier to maintain these holdings because of the fact that the Bank of France was allowing all its bills to mature. Since these holdings constituted something like 25% of the total bills outstanding in the American market, the release of these bills would provide a more ample supply, part of which would presumably come to the Reserve bank. The Bank of France intended, however, to increase its balances at the Reserve banks as its bills matured, an action which would be a tightening factor in the money market. It might be desirable in the near future to make some reduction in bill rates since technically bill rates were becoming out of line with other short term money rates. In fact the directors of the New York bank had already requested from the Federal Reserve Board a lower minimum buying rate on bills, though there was no present intention of reducing the actual buying rate.

Governor Meyer reported that the statisticians of the Federal Reserve Board computed that from $350,000,000 to $375,000,000 of currency was now hoarded throughout the country as a result of banking disturbances since last autumn. This represented an additional demand for Federal reserve credit which tended to offset the effects of gold imports under the normal working of the gold standard.

A draft of the minutes of the meeting of the Open Market Policy Conference in April was distributed and read by each of those present. It was agreed that these minutes should be sent out in their present form even though it was somewhat more detailed than usual.

The secretary's report of operations in the System Account was received and placed on file.

The memorandum submitted by the chairman was received and placed on file.

Governor Norris suggested that the two major objectives of the April program were

(1) to check gold imports, and

(2) to drive down the interest rates paid on deposits by banks.

There had been great success in pursuing the second objective, though as to the first we appeared to have gone as far as it was possible to go, since gold movements now appeared not to be due to interest rates but rather due to necessity or due to this market being the safest place for funds.

Governor Harrison pointed out that the first objective of the April meeting was perhaps somewhat broader, and included a desire to make the incoming gold effective and not sterilize it.

Governor Norris asked whether the real difficulty at present was not the rates for money but lack of demand for credit from high grade borrowers while lenders were timid and hesitant with respect to any other type of borrower.

Governor Harrison suggested that the pressure of excess reserves sooner or later tends to overcome timidity. Under the traditional gold standard the piling up of funds in any country sooner or later operates toward an expansion of credit which in turn is an influence towards raising the price level. He hoped that the purchase of governments might first avoid sterilizing gold, and might second be a stimulus operating with other favorable recent events towards giving an additional lift toward business recovery.

Governor Norris raised the question whether the system would not be criticized for taking a step to make money still easier when it was already very easy. Governor Harrison suggested that the proposal simply recognized that incoming gold would inevitably produce credit ease, and the effect of the action was to bring somewhat earlier rather than later the normal effects of the gold movement, and thus to avoid in part some of the serious effects on European countries of the loss of gold.

Governor Meyer suggested that other critics would say that by inaction we were preventing the normal influence of gold.

Governor Black commented that the action taken at the April 29 meeting at Washington was affirmative, in favor of positive action which was to continue until it accomplished its results. The methods to be followed were first the reduction of bill rates and second the purchase of governments. The results hoped for were a favorable psychological reaction, lower interest rates, and the prevention of the sterilization of gold. The first remedy, action through the bill market, appeared to have been exhausted. Business had not shown any recovery. The European situation was worse. The remaining remedy was to buy governments which should be done as a logical continuation of the affirmative policy. The President, by his announcement, had taken a constructive step which should be backed up to the limit, and Governor Black believed that the purchase of governments would give this impression and have this effect.

Governor Meyer stated that the Federal Reserve Board would be sympathetic to the purchase of Government securities, would have some preference for a larger program of purchases than $50,000,000, and that the Board would regard this program as simply discounting in advance the easing effect of the return of hoarded currency when the period of apprehension was over.

Governor Young discussed the question of gold sterilization and indicated that he believed that sterilization had been and was natural and inevitable under the operation of the Federal Reserve System; that the only way sterilization could be stopped was to have continuously an excess of credit, but that any such excess never lasts but is rather quickly absorbed through a reduction in Federal reserve credit. It is, therefore, impossible to prevent sterilization without adopting the Macauley policy of buying an exceedingly large volume of government securities. He agreed that something should be done to support the action of the President, but did not believe that the purchase of $50,000,000 of Government securities would accomplish this purpose. He did think that there was a great opportunity to deal more directly with the problem by some form of advance to Germany. This might mean announcing the advance on gold in transit, or announcing that we were prepared to make advances to the Reichsbank. Such action would put the injection precisely into the place where needed.

Governor Harrison stated that it would hardly be appropriate to announce the advance against gold since that was in the nature of temporary and ordinary banking operation which would pass quickly, and moreover, might suggest weakness on the part of the Reichsbank. He said that there had not yet been any request from the Reichsbank for a credit though word from abroad indicated that such a request might come before long.

Governor McDougal stated that while he was impressed at the last meeting by the considerations with respect to gold, he considered the domestic bank situation the most important and pressing element in the situation, and speaking in general he questioned the desirability of putting out more credit now that the market is already glutted. Following the President's announcement, however, we have had an exhibition of the effect upon the state of mind of some positive action. If purchases of governments would be received by the public as supporting the President's announcement that would appear to him of great importance.

Governor McDougal asked what the prospective demands for credit from Europe were likely to be, and Governors Harrison and Meyer reported recent communications from Europe and indicated that any demands from Europe would be in sufficiently limited amounts as to constitute no strain upon the System and leave us free to pursue the policy which seemed best from other points of view.

At 1:20 the meeting adjourned for lunch.

At 3:25 p. m. the meeting reconvened, there being present Governors Young, Harrison, Norris, Black, McDougal, and Talley, and Deputy Governor Burgess.

Governor Harrison stated that the directors of the Federal Reserve Bank of New York were unanimous in favoring the purchase of government securities at this time.

Governor Meyer joined the meeting at this point.

Question was raised as to the general effects of buying government securities, on sentiment and otherwise, and there was also discussed the form which publicity might take. The general opinion was that probably no attempt to explain the reason for purchases was desirable. The action would probably be interpreted as part of the general program.

Governor Harrison suggested that the attitude of the member banks toward purchases of government securities had changed considerably during recent weeks and that two New York City bankers had suggested to him the desirability of buying governments as a means for aiding the situation.

Governor Talley said that the purchase of government securities might have an important effect in helping banks to maintain their liquidity and so encouraging them to use their funds courageously.

After some further discussion it was voted to buy up to $50,000,000 of government securities with the understanding that there would be further conference by telephone or otherwise between members of the committee before any purchases were made beyond that amount.

Governor Young asked to be recorded as voting in the negative, and Governor Norris did not vote.

The meeting adjourned at 4:12.

W. Randolph Burgess,
Secretary.