

DECLASSIFIED

Authority E.O. 10501~~TENTATIVE - SUBJECT TO CORRECTION~~~~CONFIDENTIAL~~

MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE
OF THE OPEN MARKET POLICY CONFERENCE HELD AT THE
OFFICE OF THE FEDERAL RESERVE BANK OF NEW YORK
AUGUST 4, 1931.

333-31

333-C-2
Final
Minutes

8/4/31

The meeting was called to order at 10:50 a. m., there being present Governors Young, Harrison, Norris, and Black, and Deputy Governors McKay and Burgess.

A memorandum summarizing the credit situation was presented by the chairman, together with a report of the secretary.

Governor Harrison then reviewed the developments since the last meeting, saying that the meeting had been called because the world situation both economic and financial appeared to have developed to a point requiring careful review. While there had been some hope of an improvement in business conditions this autumn, recent developments in Europe have led to a lack of confidence and a state of fear and unrest more severe than at any time since the World War. At the root of international difficulties lay the commodity price movement. With commodity prices where they are now many countries are unable to meet their fixed charges. One of two things must happen: either commodity prices must go up, or else some parts of the world must completely reorganize their debt structures involving defaults or postponements in many cases. Bank credits, while they patch up the situation temporarily, cannot correct the basic difficulties.

In these circumstances the only possible additional step which appears to be open to the Federal Reserve System is the purchase of government securities. There is now a substantial body of opinion which believes that government purchases by the Reserve System would be helpful. Because of the greater general lack of confidence purchases at present are perhaps less likely to be effective than appeared to be the case six weeks ago. But now, for the first time, because of the system's small holdings of discounts and bills, any money the Reserve system puts

DECLASSIFIED

Authority E.O. 10501

2

out has to stay out. There is of course no assurance that a program of government purchases would necessarily be effective: the banks might keep excess reserves unused, reducing their deposit rates to zero. In any event it seems that such a program would be most likely to succeed only if the bankers in principal centers were taken into confidence and their cooperation secured.

Governor Meyer entered the meeting at this point.

Governor Harrison reviewed recent developments abroad in those countries to which credits had been granted by the Federal Reserve Banks, discussing in some detail the situations in Austria, Hungary, and Germany, and reviewing the reasons for the \$10,000,000 deposit in the B. I. S.

Governor Black raised the question of the possible use of sterling bills as collateral for Federal Reserve notes, and Governor Harrison pointed out that the difficulties were not legal but rather mechanical and perhaps also related to the criticisms which might be provoked by the use of these holdings of foreign bills as collateral for Federal Reserve notes.

Reverting to the previous discussion, Governor Harrison summarized the position with regard to purchases of governments by saying that, admitting the world was in the midst of a social, economic, and political crisis, the question was whether there was anything the Federal Reserve System could do. If by the purchase of government securities it could facilitate an increase in world prices, clearly it should be done. It is doubtful whether a purchase of governments would have such an effect, at least immediately, but the question is whether in the present crisis, which involves perhaps a struggle between socialism and capitalism, the system can wisely omit doing anything which might be helpful and which a growing number of responsible people believe would be helpful.

Deputy Governor McKay said that in his opinion everything should be done to strengthen the position of the Federal Reserve System so that there might be

DECLASSIFIED

Authority E.O. 10501

3

continued confidence in the system. Any disturbance abroad might bring withdrawals of deposits from banks in this country. In those circumstances it would be better if the member banks rather than the Reserve system held the government securities; so that they might be used as a basis for borrowing and as a basis for Federal Reserve note issues. He did not believe that purchases of government securities would help the situation, but would rather hurt it, since interest rates were very low and many banks were already suffering from lack of earnings and would have to cut their dividends.

Governor Harrison said that he would be doubtful about buying governments unless there were at least an informal understanding with the principal member banks concerning the employment of excess reserves. He would not want to suggest that the banks make wholesale purchases of bonds, but would rather suggest the placing of substantial bids for second grade bonds to aid the market price, the difficulty now being not so much that many bonds are being pressed for sale as that in many cases there are no bids whatever.

Governor Meyer said that all were agreed that it is desirable to keep the banks in a strong position, but that their losses were occurring more largely in principal than on income account. The policy of buying governments would be designed to affect attitudes and sentiment in the country and so improve the value of principal, a step which would be more effective in preventing losses by the banks than anything that could be done to improve their income. A large body of responsible opinion favored the buying of government securities and there is question whether the Reserve system can be said to have done everything within its power, until it has tried that policy more vigorously.

Governor Black stated his general agreement with this position and, referring to the attitude of the banks, said that there appeared to be two questions; first, are the banks following the right policy because of timidity, and if not

DECLASSIFIED

Authority E.O. 10501

4

what can we do to help them? He did not believe that the purchase of governments would weaken the Reserve system.

At 1:10 the meeting adjourned for lunch.

At 3:20 the members of the committee met with the executive committee of the Federal Reserve Bank of New York and there ensued a general discussion of the proposal to buy government securities covering somewhat the same ground as the morning meeting.

At 4:05 the meeting of the executive committee of the Federal Reserve Bank of New York adjourned and the executive committee of the Open Market Policy Conference reconvened. Governor Young stated that he found it difficult to believe that a purchase of government securities at this time would prove of value, but he had an open mind on the question and believed that it would be desirable to call a meeting of all the governors to consider the question. After further discussion the following resolution was passed.

The executive committee having reviewed the general credit and economic situation at home and abroad and believing it to be serious, with the consequences of present tendencies impossible to foresee, it was voted that there should be a meeting of the Open Market Policy Conference in the near future to consider the wisdom of granting such authority to the executive committee as would prepare it to act in the further purchase of government securities if and when that might seem to be necessary or desirable.

After discussion with Governor Meyer it was agreed that the meeting should be called for Tuesday, August 11, in Washington, at 10 a. m.

There was some general discussion of the attitude of bank examiners toward the treatment of bonds in the portfolios of member banks.

The meeting adjourned at 4:30.