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Authority E.O. 10501*The Conference*333-C-2
Final Minutes
ConfidentialMINUTES OF THE MEETING OF THE OPEN MARKET POLICY CONFERENCE
AT THE FEDERAL RESERVE BOARD, AUGUST 11, 1931

8/11/31

The meeting was called to order at 10:20 a. m., there being present

Governors Young, Harrison, Norris, Fancher, Seay,

Black, Martin, Geery, Calkins

Deputy Governors McKay, Worthington, Gilbert, and

Assistant Deputy Governor Matteson, who acted as Secretary

of the meeting.

The Secretary's report of open market operations since the date of the last meeting of the Conference on April 29, 1931, was presented and, on motion duly seconded, it was accepted and ordered placed on file.

The tentative minutes of the meeting of the Executive Committee of the Conference held at the Federal Reserve Bank of New York on August 4, 1931, were presented. The preliminary memorandum was also presented and was accepted and placed on file, with supplementary figures designed to bring the changes in the various elements of Federal reserve credit and other factors influencing the money market up to the close of business August 10, 1931.

Governor Harrison stated that the Executive Committee after having reviewed the general credit and economic situation at home and abroad had voted that a meeting of the Open Market Policy Conference was desirable 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 and desirable.

Governor Harrison then reviewed the recent developments abroad, and particularly in those countries where credits had been granted by the Federal reserve banks, discussing in detail the situation in Austria, Hungary, and Germany. The

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various credits extended were reported as shown in the following statement:

<u>Date of Credit</u>	<u>Total Amount of Credit</u>	<u>F.R.Banks' Participation</u>	<u>Amount of F.R.Banks' Participation Availed of</u>	<u>Engagement Commissions</u>	<u>Rate of Interest on Bills Purchased Under Various Credits</u>
<u>FIRST AUSTRIAN</u>					
May 30	100,000,000 schillings (\$14,070,000)	7,700,000 schillings (\$1,083,000)	7,700,000 schillings	1/4 of 1%	1/4 of 1% above Austrian National Bank discount rate, with minimum of 5 1/4%.
<u>SECOND AUSTRIAN</u>					
June 23	100,000,000 schillings (\$14,070,000)	8,225,000 schillings (\$1,157,000)	None	1/4 of 1%	The discount rate of the Austrian National Bank.
<u>FIRST HUNGARIAN</u>					
June 19 " 22	\$10,000,000 5,000,000	2,000,000	2,000,000	None	Discount rate of the National Bank of Hungary
<u>SECOND HUNGARIAN</u>					
July 8	\$10,000,000	3,000,000	3,000,000	1/4 of 1%	Discount rate of the National Bank of Hungary.
<u>REICHSBANK</u>					
June 26 Expired July 16, renewed to Aug. 6 and again to Nov. 4	\$100,000,000	25,000,000	25,000,000	1/2 per mill on the original credit and first renewal, 2 1/4 per mill on the 2nd renewal	Discount rate of the Reichsbank for the original credit and first renewal. Discount rate of the Reichsbank, or 10%, whichever is the lower, for the second renewal.
<u>BANK FOR INTERNATIONAL SETTLEMENTS</u>					
July 30	\$10,000,000 sight deposit	10,000,000	10,000,000	None	B. I. S. current rate for sight deposits, at present 1 3/4%
It is the intention of the B. I. S. to purchase from time to time, as conveniently available, dollar or foreign currency bills, up to \$10,000,000.					
<u>BANK OF ENGLAND</u>					
Aug. 1	\$250,000,000	125,000,000	11,429,000	1/16th of 1%	3 3/8%

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Between July 23 and August 8, 1931, sterling exchange was purchased to the amount of approximately £1,650,000 in support of that exchange. Prior to August 8 £900,000 of the above sum were invested in sterling bills by the Bank of England, for our account. On August 8 the £900,000 were transferred to apply on the Bank of England credit of \$125,000,000 and the remaining £750,000, which were delivered to the Bank of England on August 8, were invested in bills and applied directly to the credit.

Governor Harrison reviewed the background of these credits and the negotiations which had led up to them, as outlined in his letter of July 9, 1931, to the Governors of all Federal reserve banks. The continued lack of confidence and the state of fear and unrest which exist all over the world and the continued decline in commodity prices had brought about a condition approaching bankruptcy in many foreign countries and in certain sections of our own country, due to the inability of these countries and sections to meet their fixed charges. Under these conditions one of two things must happen: either commodity prices must go up, or debt structures must be reorganized, involving defaults or postponements in many cases. While bank credits may serve to patch up various situations temporarily, they cannot correct the basic difficulties. The only possible additional step which now appears open to the Federal Reserve System as a means for exerting some favorable influence upon the situation is the purchase of Government securities. The only question is whether conditions are now such as to make such a step practicable or reasonably effective.

Governor Harrison stated his belief that economic, social, and political conditions throughout the world were so very serious, the prospects for the winter indicated such severe unemployment and distress, and the threat of political and social upheavals in various parts of the world was so great that the Federal Reserve System should certainly be prepared to take any helpful steps within its power if and as soon as conditions indicated reasonable prospects of their success.

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Governor Harrison did not advocate immediate purchases of securities because it did not appear that the attitude of the banks and investors was such that funds thus made available would be put to work, but he believed the system should be prepared to make substantial purchases as soon as there was some prospect that the purchases might be effective.

In the course of an ensuing discussion Governor Harrison stated that he felt that if some such action were not taken by the Federal Reserve System the question would be asked why the system did not exhaust every possible means that it possessed in an endeavor to help out in this crisis. He reiterated that he, in common with others, felt that the present was not the proper time to make further purchases of Governments, but that the Executive Committee should be authorized by the Conference to make purchases of sizeable amounts if, and when, such action should appear desirable.

Governor Calkins brought up the question of the inability of the majority of the banks to participate in further purchases, due to the lack of gold cover. The New York and Chicago bank were the only ones really in a position to participate to any extent in purchases of Governments at this time. Governor Calkins also stated that there were bad banking situations in all districts, which might lead to heavy withdrawals of reserves which none of the banks except New York and Chicago were in a position to stand.

Governor Harrison stated that the amount of free gold in the system was about \$750,000,000, which could be increased to a billion dollars by withdrawals from the agents.

With regard to the immediate situation in New York, Governor Harrison reported that the New York banks for two months past had been holding currently excess reserves of from \$60,000,000 to \$80,000,000, but that in the past few days, due to currency withdrawals and the action of the Bank of France in allowing its Treasury Bills and bankers' bills to run off, this excess had been wiped out and the banks had been obliged to borrow at the reserve bank from \$40,000,000 to

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\$80,000,000. In view of this sudden and unusual change and to avoid a disturbance to the money situation, the New York reserve bank had made purchases on August 10 and 11, for its own account, of \$50,000,000 of Government securities, any part of which it will be glad to give to any bank that wishes to participate. This action was not taken with a view to creating excess reserves but to supply enough funds to take care of the unusual withdrawals. The Bank of France has now a \$170,000,000 free balance with the Reserve Banks and holds about \$40,000,000 more of bills maturing within the next few weeks.

Governor Seay said that the amount of free gold which his bank held would not permit them to participate in any further credit, or purchases. In fact they had not participated in the Bank of England credit as that would have required about \$6,000,000 or \$6,500,000 of free gold.

Governor Harrison pointed out that the question to decide was not whether individual banks could, or could not, participate, but to try to agree on a System policy which would be helpful.

Governor Meyer joined the meeting at 12:25 p. m., and stated that he would like to get the opinion of the Governors of the Federal reserve banks as to whether they would favor the adoption by the Comptroller of the Currency of a policy which would permit national banks to carry all bonds in their portfolios at cost price, regardless of the market value, unless such bonds were in default as to either principal or interest, in which event their depreciation should be written off. Under this plan the difference between the cost value of the defaulted securities and the market value would be classified as either slow or doubtful. The Governors expressed themselves as in favor of some such formula; whereupon Governor Meyer left the meeting.

The discussion of further purchases of Government securities being resumed, Governor Calkins expressed the opinion that additional purchases at this time would not do any good. He also raised the question of the desirability of maintaining a proper amount of liquidity in the System. An urgent demand for

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credit from some other quarter might prove embarrassing if the System's resources were tied up in Government securities.

Mr. McKay stated that it was his feeling and that of the Governor and directors of his bank that they should keep in the strongest position possible.

The meeting adjourned at 1:20 p. m. for lunch and reconvened at 2:30 p. m., with all present that attended the morning session. Governor Meyer joined the meeting shortly after it reconvened.

Governor Meyer reviewed the various facts in the present situation and stated that in his opinion the situation was one which called for some action by the Federal Reserve System, and he hoped that the Conference would give serious consideration to the matter of buying securities. Furthermore, it was his opinion that such additional action could be taken without any possibility of really weakening the System.

Governor Calkins asked what would happen in the event that we should buy, say, \$500,000,000 of Governments now and in the course of thirty days be asked to extend another \$200,000,000 credit to England, to which Governor Meyer stated that if governments are purchased we should not hesitate to sell them if and when conditions ~~he did not think we should hesitate to sell Governments in order to help England.~~ make it necessary or desirable.

Governor Calkins suggested that those present give the attitude of their respective boards of directors in regard to the purchase of securities. Members of the Conference thereupon responded as follows:

Governor Young stated that his directors were opposed to the purchase of any further Governments and went along reluctantly on the last purchase.

Governor Black stated that if he were to report on the question now he would be in favor of empowering the Executive Committee to make further purchases if, and when, they considered it desirable. The question, however, of making further purchases at this time has not been taken up with his board of directors and he, therefore, could not give their views at this time.

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Governor Seay stated that for a year prior to the first of this year his directors had been opposed to the purchase of Governments and also had been opposed to the purchase of acceptances because of the rates, but since then they have participated in System purchases. As they have a very small amount of free gold his directors would not be willing to reduce that amount further by participating in purchases.

Governor Calkins stated that the directors of the San Francisco bank have been consistently, since the beginning, disposed to go along with the System and to participate in the operations of the Open Market Policy Conference. They have been, on the whole, of the opinion that nothing has been accomplished by the very large amount of money that has been put in the money market. They did not consider it proper for the San Francisco bank to participate in further large purchases of Governments.

Governor Geery stated that he had not had a chance to discuss the matter with his directors, but that the Executive Committee, on account of their free gold position is opposed to the further purchase of Governments.

Mr. Gilbert stated that there was no meeting of his board in August and the matter had not been discussed with them. The position of his bank has made it necessary to discontinue participating. He stated that his own personal feeling is that he would be opposed to the purchase of Governments but would be in favor of forcing bills into the System.

Governor Martin stated that his board of directors appreciates the gravity of the world situation and also the local situation and desires to go along in every way that it can in anything that will help the general situation. However, at the last board meeting, the board felt decidedly that the System had gone about as far as it was justified in extending foreign credits; also that it had gone as far as it could in the purchase of Governments. He said his local situation was such that unfortunately they cannot participate unless their gold cover improves.

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Governor Norris stated that at his board meeting last week only four directors were present, which was not a quorum, and he therefore could give no authoritative recent statement of their opinion. In a recent discussion, however, the majority of the board had been opposed to further purchases of Government securities. Neither his board nor he individually can see that any possible good can be done by making purchases now or any time that we can look forward to. With only \$40,000,000 of free gold he was afraid that for the first time in their entire history they would have to decline to participate, which they would dislike to do.

Governor Fancher said his board has been divided on the question of buying Government securities, probably the majority against it. In expressing his own opinion he said that if the resolution was reduced to \$100,000,000 he would not oppose it, as a situation may arise in which the purchase of \$100,000,000, or a part of it, may be desirable. He feels that there is nothing today that would warrant the purchase of additional Governments, but that the Executive Committee should not be without authority if the unforeseen happens.

Mr. McKay said he had submitted the question to his Executive Committee who had discussed it freely and are of the opinion that the purchase of Governments at this time would not do any good and might result in harm. They feel that a little firming in money rates from present abnormally low levels would do more good than easing would do. These are Governor McDougal's views and his own.

Mr. Worthington said he thought it has been the opinion of the majority of the board, also of Governor Bailey, that the easy money policy has been carried too far and has not accomplished the desired result. His bank has always participated and is now participating, but at this time has gone about as far as it can. His personal opinion is similar to that of Mr. McKay.

Governor Harrison said he had gone over the whole matter with the New York directors last Thursday and they are all of the opinion that it would not be wise to buy Government securities now inasmuch as the present attitude of the banks

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and public about bond investments would probably defeat the program. They do feel, however, as he does, that the situation throughout the world is very critical and that the System should be in a position to act promptly and use what means we have left in the effort to facilitate recovery if and as soon as a favorable opportunity offers itself. With this in mind they were very hopeful that the Conference would empower the Executive Committee to make purchases of Government securities promptly in a substantial amount if and when that might be desirable.

Governor Harrison presented the following resolution:

"It is the sense of the Conference that, subject to the approval of the Federal Reserve Board, the Executive Committee be authorized to purchase for account of such Federal reserve banks as desire to participate, up to \$300,000,000 of Government securities if and when it becomes necessary or advisable to do so. It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose."

Governor Calkins then stated that if it is in order, he would offer the following as an amendment to the resolution. The motion to amend was made and seconded by Governor Fancher -

"That the Executive Committee be authorized to purchase for account of such Federal reserve banks as desire to participate up to \$100,000,000 Government securities if and when it becomes necessary or advisable to do so, or if necessary or advisable to sell up to a similar amount."

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This amount was then changed by mutual agreement to read \$120,000,000, to cover the \$20,000,000 unexecuted balance of the present authorization.

Governor Harrison explained that he would vote against the proposed amendment because if the Conference were not prepared to authorize the purchase of a more substantial amount it would not in his opinion be wise to embark upon the purchase of an amount too small to accomplish the objective.

A vote was taken on the amendment, all of the Governors voting in favor of it except Governors Harrison and Young.

A vote was then taken on the resolution, as amended:

"It is the sense of the Conference that, subject to the approval of the Federal Reserve Board, the Executive Committee be authorized to purchase for account of such Federal reserve banks as desire to participate, up to \$120,000,000 of Government securities if and when it becomes necessary or advisable to do so, or if necessary or advisable to sell up to a similar amount. It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose."

All Governors voted in favor of the resolution, as amended, except Governor Young.

There followed a discussion as to the best date for the Governors' Conference, and it was the sense of the meeting that it should be held as soon as the Committee on Reserves were ready to report, which would be about the middle of October.

The meeting adjourned at 5:20 p. m.