

DECLASSIFIED
Authority E.O. 10501

~~Confidential~~

JOINT MEETING OF THE FEDERAL RESERVE BOARD AND THE OPEN MARKET POLICY CONFERENCE
HELD IN WASHINGTON ON AUGUST 11, 1931

Present: Governor Meyer, Dr. Miller, Messrs. James, Hamlin and Magee, members of the Federal Reserve Board

Governors Young, Harrison, Martin, Geery and Deputy Governors Worthington, McKay and Gilbert of the Federal Reserve Banks; also

Messrs. Goldenweiser, Wyatt, Snead and McClelland of the Federal Reserve Board

Mr. Matteson of the Federal Reserve Bank of New York.

The meeting was called to order at 5:30 p. m. by Governor Meyer.

Governor Harrison presented the preliminary memorandum relative to credit conditions, the report of operations, and the tentative minutes of the Executive Committee meeting. Governor Harrison then reviewed the general credit and economic situation at home and abroad as it had been discussed at the conference. He then acquainted the members of the Federal Reserve Board with the action taken at the meeting of the Open Market Policy Conference and read the resolution as it had first been presented to the Conference, and in the form in which it was later adopted.

In discussing the reasons why the members of the Conference were not in favor of purchasing large amounts of Government securities immediately, he pointed out that at present the effect of purchases would probably be limited to the piling up of excess reserves in member banks which would not be employed. The natural outlet for such excess reserves is in investments and if action were taken at the right time it might result in pressure upon the banks for the use of surplus funds in the purchase of bonds, mortgages, etc. One difficulty at the present time is that the most prime investments are selling on a very low yield basis, while secondary bonds consist largely of railroad issues, of which a considerable proportion may in a short time become ineligible for investment by savings banks, insurance companies, and trust funds, due to the provisions of various state laws. In

addition the bond market has been uncertain because of pressure on the market, due

DECLASSIFIED

Authority E.O. 10501

2

to forced liquidation of bond portfolios of closed banks. The conference felt, however, that the existing situation was so critical that the System should be prepared to act quickly if and when conditions are changed to a point which might make it appear that an operation in Government securities would be effective in encouraging or facilitating business recovery.

He referred also to the purchase of \$50,000,000 of Government securities by the Federal Reserve Bank of New York on August 10 and 11, and stated that it was not contemplated that these securities would be absorbed into the System account as part of the \$120,000,000 authorized by the Conference but that, unless some of the other reserve banks desired to participate in those purchases, they would be carried in the portfolio of the New York bank.

Governor Meyer and other members of the Board expressed disappointment at the action taken by the Committee in that it limited possible purchases to an ineffective amount. They also indicated some disappointment that the procedure followed by the meeting did not give the members of the Board an adequate opportunity for discussion with the members of the Conference before final action was taken by the Conference.

Governor Harrison stated that the present procedure was not satisfactory to him either but that it was precisely in accordance with the procedure followed ever since the Open Market Committee had been changed to the Open Market Policy Conference, including representatives of all of the Federal reserve banks.

Mr. Hamlin asked the Governors who voted against the amendment to state their reasons for so doing.

Governor Young stated that he would rather see the portfolios of the Federal Reserve System composed of bills and discounts, and regretted to see two important functions nullified by operations in Government securities.

DECLASSIFIED

Authority E.O. 10501

3

Governor Harrison stated that his reason for voting against this amendment was that the amount was entirely inadequate for any program designed to stimulate the use of credit in the country. Purchases under this limited authority, he said, would do no more than offset present withdrawals of funds. While not in favor of purchases at the present time for reasons elaborated at the meeting of the Conference, he felt that the Executive Committee should have authority to purchase substantial amounts promptly if, and when, such action seemed necessary and desirable and with likelihood of being effective. Occasions arise where quick action is necessary, and that the delay in having a meeting of the Conference might nullify the effect of such purchases.

There then followed a general discussion regarding foreign credits, the position of various foreign countries, and the probable effects on the Reserve System of possible events in this field.

Governor Meyer asked Mr. Goldenweiser if there was any danger to the System in locking up \$200,000,000 or \$300,000,000 of Government bonds. Mr. Goldenweiser stated that there was no danger in that direction as we have \$750,000,000 free gold which can be increased to \$1,000,000,000 by withdrawals from the agents.

Governor Meyer suggested as a matter of procedure that the members of the Conference should come to the meeting without instructions by their boards of directors, but prepared for a free discussion with the members of the Board. He suggested that there should be another meeting held at an early date, to be attended by the Board, for a further discussion of these questions.

The meeting adjourned at 6:45 p. m.