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Final minutes
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MINUTES OF THE MEETING OF THE
JOINT CONFERENCE OF THE FEDERAL RESERVE BOARD
AND THE OPEN MARKET POLICY CONFERENCE
TUESDAY, MAY 17, 1932, WASHINGTON, D. C.

The meeting was called to order at 10:15 a. m., there being present:

From the Federal Reserve Board
Governor Meyer and Messrs. Hamlin, James, Magee, Miller, and Pole,
From the Federal Reserve Board staff
Messrs. Harrison, Morrill, Goldenweiser, Wyatt, Smead, and McClelland,
From the Federal reserve banks
Governor Harrison, chairman, Governors Young, Fancher, Seay, Black, McDougal, Martin, Geery, McKinney, and Calkins, and Deputy Governors Burgess, secretary, and Worthington.

The preliminary memorandum and the secretary's report of operations were submitted and read.

Governor Meyer reported on the volume of operations of the Reconstruction Finance Corporation.

Governor Meyer discussed briefly the apparent results of the program of purchases agreed upon at the meeting of April 12 and indicated that the effectiveness of the operation was impaired somewhat by disturbances which had taken place, including passage by the House of the Goldsborough Bill, which had occasioned an unfavorable reaction in Europe and some gold withdrawals.

At this point Governor Harrison reported on the withdrawals of foreign balances, indicating that the amounts remaining had been reduced markedly in recent months.

At 10:40 Governor Norris entered the meeting.

Governor Meyer indicated that it was the feeling in Washington that the program had been generally well received and had worked as well as could be expected under unusual circumstances.

Governor Harrison said that while in the public mind the success of the program had not been demonstrated because the downward movement in prices

Transletter 6/15/32 filed 333.-C-2

and business had not been stopped, the results were important and included a reduction of debt by the member banks at the Reserve banks, and a change in the bank attitude about loans and investments. Generally speaking the bankers had received the program favorably and the decline in bank credit appeared to have been checked. The principal New York City banks had begun buying bonds, although restrained by fear of adverse legislation. Their excess of reserves had only been substantial for three or four weeks. He believed purchases should be continued.

Governor Meyer called for an expression of views from the governors and particularly requested some comment on the question as to whether it would be helpful to have the Reserve Board call a meeting of banks and business men or perhaps to have meetings in the different districts which might possibly be attended by some representative of the Board for the purpose of discussing means for putting to use funds made available by the Reserve banks.

Governor Black said that the chief value of the program up to this point appeared to have been in the prevention of difficulties. He indicated that banking conditions were much improved in his district by reason of the operations of the Reconstruction Finance Corporation, but he believed that positive action should be taken to get the cooperation of member banks. The Reserve System had been playing too much of a lone game and had not been sufficiently in a position of leadership. Meetings in different centers might be helpful in getting cooperation and in dealing with excessive fear and restriction of credit. He favored continuation of the program of purchases. He indicated also that business men and bankers were waiting on Congressional action before going ahead. He would be glad to have a member of the Reserve Board come to his district for a meeting.

Governor Geery stated that he felt very well satisfied with the results of the program to date, considering the handicaps. He believed it would be a mistake to stop, that the program should be continued until given a fair trial, and that considerable results should not be expected within ninety days. The sentiment of his district was favorable towards the program.

Governor Seay said that the most notable effect of the program had been a check in the decline of bank deposits, and loans and investments. He had some question as to just how far the system should go or could safely go in view of the one-year limitation of Section 3 of the Glass Steagall Bill. He also felt that there was so much diversity of opinion among bankers that not much could be gained by attempting to lead the bankers.

Mr. Miller stated that he believed the best way to assure extension of Section 3 of the Glass Steagall Bill beyond a year was to use this provision wisely and vigorously, and that in the last analysis the Federal Reserve Board incurred the major responsibility for the use of this provision. He emphasized the responsibility of the Reserve System for exercising leadership at this time.

Governor Young said that the Reconstruction Finance Corporation had done a remarkable work in his district, that it applied the salve where the sore was. He believed it was still too early to see the good or bad effects of Federal reserve action. He believed that each Reserve bank should take its full proportion of the total securities which had been purchased.

Governor Calkins said he believed the action taken was justified and the results were all that could be looked for, though it is not yet possible to judge the success of the operation. He was in sympathy with Governor Black in principle but saw the difficulties of the proposal. Bank morale was generally so low that a meeting of bankers might well cause alarm. Generally speaking, he believed that we were still dealing with a psychological condition. The question was whether it was desirable for the System to apply its leadership through its operations or through admonitions. He was in sympathy with anything which could practically be done, but in his own district has found greatest success in dealing with individuals rather than working through conferences.

Mr. Miller suggested that there was no adequate program. The country was still thinking in terms of safety rather than resumption. A program of resumption was recessary. He believed this could best be brought about by summoning to Washington a national group representing industry as well as bankers to formulate a program.

Governor Martin reported that in the eighth district loans and investments of banks were still going down, though deposits were perhaps showing some stabilization. The banks had stood the loss of deposits well, and the Reconstruction Finance Corporation had been very helpful. He believed the program for the purchase of governments had shown relatively little effect in the eighth district.

Deputy Governor Worthington stated that the opinion of the Kansas City bank was in general accord with the statement of Governor Calkins. The directors of the bank were somewhat doubtful and reluctant as to the program, but expected to continue to do their share. The operations of the Reconstruction Finance Corporation had been most helpful.

Governor Fancher stated that the policy had been well received in his district, that he had hoped for a broader effect, but there had been various hindrances to the effectiveness of the policy. Through this program and through the Reconstruction Finance Corporation, banks had been helped to reduce their debt, and the higher price of government bonds had enabled banks to sell some of their bonds. He believed the final disposal of bills now before Congress would be a great help to the effectiveness of the program and thereafter meetings of bankers might be helpful. The time had been too short for the full effect of the program. It should be continued, though he had some question as to the scale of future purchases.

Governor Norris said he did not believe that the difficulty was primarily a credit or currency difficulty, and therefore there were limits to the effectiveness of the Federal reserve program in dealing with the situation, but since the program had been begun it could not be abandoned.

Governor McDougal stated that credit extended by the Reconstruction Finance Corporation to banks in the Seventh Federal Reserve District had been timely and would undoubtedly save a good many of the distressed banks, but that while the general banking situation throughout the district looked better, unfortunately many banks, through impairment of their capital structure, are still in a very weak position.

With respect to open market policy, he stated that the member banks in Chicago were carrying about $70,000,000 of excess reserves, the System as a whole approximately $265,000,000, and suggested that purchases of Government securities be slowed down somewhat until these large excess reserves were put to work.

Governor McKinney indicated that Governor Black had outlined much the same position as the Dallas bank held. He doubted whether the proceeds of purchases had reached the eleventh district much, but he believed the open market program reassuring. He believed that the Federal Reserve System should divide the responsibility of leadership among the bankers, but was doubtful of the desirability of bringing in others than bankers.

Governor Meyer raised the question whether it might not be possible to do something about cotton and wool, and there ensued some discussion on this point, Governor Calkins suggesting that something might be accomplished by making credit available for carrying wool.

At 12:40 Secretary Mills entered the meeting.

There ensued a discussion with regard to the possibility of some program by which meetings might be called of business men and bankers to develop a program of resumption and reemployment.

Mr. Hamlin, after agreeing with Mr. Miller as to the desirability of having a conference in Washington, stated that he would like to have a survey made in each Federal reserve district with the view to bringing about cooperation between banks and borrowers. He stated that there was undoubtedly much construction work which not only could but should be undertaken at the present time and that while this might not produce paper eligible for rediscount by the Federal reserve banks, it would tend to lessen unemployment and such paper could in an emergency be taken care of by the Federal reserve banks.

Governor Meyer expressed the opinion that needs for construction and opportunities for industrial activity undoubtedly exist in different communities of the various Federal reserve districts, and, as an illustration, advised the conference of a recent proposal, involving the construction of about two hundred medium-priced homes in Westchester County, New York, which had not been put into effect because of the lack of credit facilities. He stated that the Reconstruction Finance Corporation could not handle the matter under the law, but that he had called it to the attention of some people in New York, through the Corporation's loan agency, with the result that arrangements for the necessary financing are being made.

Governor Harrison reported his experience in talking with groups of bankers in New York and indicated that the principal difficulty in procuring a program of affirmative action was the uncertainty created by the situation in Congress.

There was general agreement that each Reserve bank should study the problems in its locality with a view of securing cooperation toward bringing about a wider use of the credit now being made available.

The meeting adjourned at 1:05 p. m.

At 2:20 the meeting of the Open Market Policy Conference reconvened, there being present:

> Governor Harrison, chairman, Governors Young, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, McKinney, and Calkins.
> Deputy Governors Burgess, secretary, and Worthington.

Governor McDougal referred again to the difficulties in the banking situation and stated that he believed it necessary for the Reserve System to avoid dissipating its resources so as to be in a position to meet any situation which might arise. He hoped no program would be adopted specifying in advance a definite amount of securities to be purchased from week to week.

There followed a discussion of the reallotment of purchases made since April 12, and it was

> Moved and carried that it was the sense of the conference that all Reserve banks should participate in the usual ratios to the extent allowed by their reserve positions in all purchases made for the System open market account since April 12.

A motion to extend this reallotment to all system holdings of government securities was defeated.

Governor Calkins pointed out that the Federal Reserve Bank of San Francisco could not yet take its share under the mechanism of the Federal Reserve Board's plan of using government securities as collateral, but he hoped that matter would be adjusted.

The following resolution was then moved and carried, Governors McDougal and Young voting in the negative:

> "After discussion of credit, banking and business conditions and the effects of the System's Open Market Operations on those conditions in recent weeks, it was voted, subject to the approval of the Federal Reserve Board, to authorize the Executive Committee of the Open Market Policy Conference to continue the purchase of Government securities for System account as may seem advisable from week to week but not to exceed an aggregate of $500,000,000 without another meeting of the Open Market Policy Conference."

This resolution was then transmitted to the Federal Reserve Board.

There followed some further general discussion of methods of following up the policy by meetings of bankers and in other ways, and it appeared to be the concensus of view that a meeting of a large group in Washington would be of doubtful value at this time, and that it would be desirable in each district to consider means for making the policy effective.

Governor Meyer entered the meeting and reported that the Federal Reserve Board had approved the resolution. He suggested that purchases under the resolution should be made at a somewhat slower rate than had been followed in recent weeks. He then left the meeting again.

There was some discussion of discount rates, without any conclusion being reached. It was recognized that the quantity of credit was at present the most immediate consideration.

Governor Calkins said the Federal Reserve Board has suggested the appointment of a committee from the Reserve banks to work with a committee of the Board in making a thorough and discriminating study of American acceptance practice. He proposed the appointment of a committee consisting of Mr. Kenzel of New York, Mr. McKay of Chicago, and Mr. Clerk of San Francisco. There was general agreement with this action.

Governor Young reported that there would be a meeting on Wednesday morning of the committee of governors to discuss the Glass Bill, and the committee would be glad to have any other governors join them.

At 4:40 the following members and staff of the Federal Reserve Board again entered the meeting.

From the Federal Reserve Board
Governor Meyer, and Messrs. Hamlin, James, Miller and Magee,
From the Federal Reserve Board staff
Messrs. Harrison, Morrill, Goldenweiser, Wyatt, Smead, and McClelland.

There was an informal discussion of Federal reserve salaries.

At 4:50 Secretary Mills entered the meeting.

Governor Meyer indicated that the majority of the Board appeared to favor some sort of public statement concerning the findings of the Conference, and there ensued a general discussion of the desirability of making some statement.

Governor Harrison said that he believed a statement was undesirable, first, because it set a ~~bade~~ bad precedent; second, because it was difficult to make a statement without making an undue commitment and third, it was always difficult to secure agreement on any form of statement. He felt that Governor Meyer's appearance on Wednesday morning before the Senate Committee on Banking and Currency would furnish an opportunity for an adequate statement which would be more effective and less dangerous than a prepared statement issued by the Conference.

Several forms of statement were then read and discussed at length.

It was moved and carried by the Open Market Policy Conference that some statement be issued.

After further extended discussion it was voted that a short form of statement be used rather than a longer form, and after still further discussion the following statement was approved by a majority of the Conference.

> "The Governors of the Federal reserve banks met to-day with the Federal Reserve Board and it was decided to continue open market operations by the purchase of government securities, the extent and amount to be determined from time to time as conditions justify."

The meeting adjourned at 6:05 p. m.

W. Randolph Burgess,

Secretary.