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Final

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Final Minutes
 7/14/32

MINUTES OF THE MEETING OF THE
 OPEN MARKET POLICY CONFERENCE
 THURSDAY, JULY 14, 1932, WASHINGTON, D. C.

The meeting was called to order at 10:30 a. m., in joint session with the Federal Reserve Board, there being present the following:

- From the Federal Reserve Board
 Governor Meyer, and Messrs. Hamlin, James, Magee,
 and Miller,
- From the Federal reserve banks
 Governors Young, Harrison, Fancher, Seay, Black,
 McDougal, Geery, Martin, Hamilton, McKinney, and
 Calkins, and Deputy Governors Hutt and Burgess,
- From the Federal Reserve Board staff
 Messrs. F. Harrison, Goldenweiser, Wyatt, Smead,
 and McClelland.

The preliminary memorandum and secretary's report of Open Market operations were distributed and a few minutes were taken for the reading of these reports.

Governor Meyer reviewed the events since the last meeting and referred particularly to the completion of the French gold movement and the tendency for the international movement of funds to turn in favor of the dollar. He reviewed the activities of the Reconstruction Finance Corporation as to their volume of operations, the acceleration of demands for funds in the second half of June, and a recent diminution of the demand. He discussed briefly the Glass substitute for the Goldsborough bill and the Glass amendment to the relief bill, giving authority to the Reserve banks to make loans to individuals and corporations under certain closely prescribed conditions.

With reference to the system open market policy Governor Meyer indicated that while business had not undergone any revolutionary revival everything had been achieved by the open market policy which there was a right to expect in view of all the circumstances. He suggested that in determining future policy it was important to consider that the public effect of any sudden discontinuance of the

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policy which had been pursued would be unfortunate, and also that in future policy every effort should be made to secure an effective united system policy. He pointed out that there existed a trend in Congress toward giving the System more centralization, and that the open market program offered a test of the capacity of the System to function effectively in its present form.

Secretary Mills entered the meeting at this point.

Governor Harrison referred to his letter of July 5 to members of the conference which contained an analysis of the disposition of the funds made available through open market operations. Thus far these funds had been used largely defensively, to meet gold exports and to repay rediscounts, but there now appeared to be a much better opportunity to achieve the objective of the program. In view of the stoppage of the gold export movement it now appeared to be possible to maintain surplus reserves at the cost of relatively small further purchases of governments, assuming bank failures and currency hoarding can be kept in check. Governor Harrison suggested a program consisting of three points:

- (1) To prevent bank failures,
- (2) To continue to maintain excess reserves of \$200,000,000 to \$250,000,000 until they are used as a basis for additional credit
- (3) To coordinate the action of the banking and industrial committees in different districts to promote the use of credit.

There ensued a general discussion of the banking situation, the effectiveness of open market operations, and the future program. During the course of this discussion a number of the governors expressed the view that active methods should be taken for putting excess reserves to work, and a number introduced evidence to show that business was having considerable difficulty in obtaining from the banks the funds required.

The meeting adjourned at 1:05 p. m.

The meeting reconvened at 2:50, there being present the same persons as at the morning meeting with the addition of Mr. Morrill of the Board's staff. The

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general discussion was continued. The governors of a number of banks pointed out that with their reserve percentages not far from 50% their directors were reluctant to participate much further in open market purchases, particularly unless the operations were a united system undertaking. A number suggested the desirability of a redistribution of government securities to bring about a leveling up in reserve percentages.

At 3:35 the members of the Federal Reserve Board and its staff left the meeting, and the discussion of a future open market program was resumed with only the members of the open market policy conference present, Governor Harrison presiding.

After further continued discussion the following motion was carried by a vote of 9 to 3, Governors Young, Seay and McDougal voting in the negative.

"That the Executive Committee be authorized to buy Government securities to the extent necessary to maintain excess reserves of member banks at approximately 200 million dollars, total purchases to be limited to the amount previously authorized by the Open Market Policy Conference which is 207 million dollars. For the guidance of the Executive Committee it was the sense of the conference that except in unusual or unforeseen circumstances purchases should not exceed 15 million dollars a week, but for the next four weeks should be not less than 5 million dollars a week."

There then ensued a further discussion of the distribution of purchases of government securities among the different Federal reserve banks, during the course of which Governor Young pointed out that while the Boston reserve bank had been opposed to the program, it had participated to a large extent in the purchases since April 12 and had also taken over \$22,000,000 of securities from the outright holdings of the Federal Reserve Bank of New York on a temporary basis, with the understanding that these could be sold back to the New York bank whenever necessary. The Boston bank was willing to continue this sort of assistance. Governor McDougal also pointed out that the Chicago bank had participated in all purchases since April 12 and would continue to give careful consideration to the question of participation although the directors of his bank felt that, in view especially of the bank's

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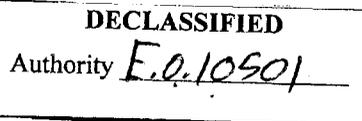
large liability for Federal Reserve notes, they held all the governments that they desired. He pointed out that the Chicago bank had purchased \$41 million of securities for its own account and had also made temporary purchases from New York, and would be willing to make further such purchases from New York or any other reserve bank which needed assistance in maintaining its reserve position.

The Secretary reported upon the expressions of view received from various reserve banks in response to his letter of June 24 submitting data upon several possible bases for the distribution of security purchases. In the course of discussion it was generally recognized that the ratios of distribution now being used were arbitrary and unsatisfactory but no other basis appeared to be more satisfactory except an allotment on the basis of reserve percentages, which was impracticable by reason of the views of the Boston and Chicago banks as to the program. After extended discussion it was agreed that operations should be continued on the basis of the present allotment ratios. It was recognized however, that a number of the banks would not be able to participate fully on this basis in view of their low reserve percentages, and it was understood also that the Boston and Chicago banks would stand ready to give temporary assistance to any bank requiring aid because of its reserve percentage, though this operation would ordinarily be cleared through New York.

Governor Harrison reported that the Federal Reserve Board had expressed agreement with the resolution adopted by the conference as to future policy.

Governor Harrison then reported informally the developments with respect to gold movements and relations with foreign banks of issue since the preceding meeting.

The meeting adjourned at 6:00 p. m.



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JOINT CONFERENCE OF THE FEDERAL RESERVE BOARD
AND THE GOVERNORS OF FEDERAL RESERVE BANKS
FRIDAY, JULY 15, 1932, AT WASHINGTON, D. C.

The meeting was called to order at 10:35 a. m. as a joint conference, there being present:

From the Federal Reserve Board
Governor Meyer, and Messrs. Hamlin, James, Magee,
and Miller,
From the Federal reserve banks
Governors Young, Harrison, Fancher, Seay, Black,
McDougal, Geery, Martin, Hamilton, McKinney, and
Calkins, and Deputy Governors Hutt and Burgess.
From the Federal Reserve Board staff
Messrs. F. Harrison, Morrill, Goldenweiser, Wyatt,
McClelland, and Carter.

Governor Meyer reported the status before Congress of the provision of the pending relief bill requiring publicity for loans by the Reconstruction Finance Corporation.

Governor Meyer then suggested a discussion of the provision for loans to individuals and corporations by the Federal reserve banks embodied in the Glass amendment to the relief bill. He suggested that this provision might prove helpful in making credit more freely available for business, for the provision would open the way for the Federal reserve banks to become informed as to particular credit situations, and to work out means by which bank credit might be made available even in cases where the Federal reserve banks themselves might not make the loan.

There ensued a general discussion in the course of which the dangers as well as the advantages in this new proposal were emphasized. The dangers specially mentioned were the danger of the Reserve banks being called upon to make risky loans, and the danger of the Reserve System becoming too greatly involved in the commercial banking business.

Governor Meyer and others suggested that it would probably be necessary for many of the Reserve banks to employ additional people specially qualified to carry

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through successfully the work involved in this proposal.

There was discussion of a tentative draft of regulations covering this provision which had been prepared by the staff of the Board.

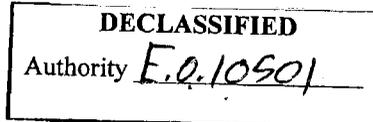
In response to a question Governor Meyer said that the Board did not propose to approve each loan but rather to authorize the Reserve banks to make such loans for a stated period.

After discussion it was agreed that this provision does not authorize loans to nonmember banks since these banks, which have access to the Reconstruction Finance Corporation, could not offer satisfactory proof that they were unable to secure loans elsewhere, and in view also of the technical wording of the provision.

With regard to a possible limitation of the amount of a loan which a Reserve bank might make to any one borrower, it was the consensus of view that 1 per cent of the paid-in capital was too narrow a limitation, and it was felt that a proper limitation would be that no loan to a single borrower should be larger than 1 per cent of the paid-in capital and surplus of the lending Federal reserve bank except with the consent of the Federal Reserve Board.

There was considerable discussion as to the rate which should be charged on these loans, and it was agreed that there should be some flexibility of rate both by reason of differences in locality and differences in the character of the risk. It appeared to be the general view of the governors that the most practical plan would be to have a minimum and a maximum rate fixed by each Federal reserve bank subject to review and determination by the Federal Reserve Board within which a rate for each loan might be determined by the administrative officers. Generally speaking it was felt that the rate charged should correspond with the going rate charged by commercial banks.

Governor Meyer suggested that weekly reports from the Reserve banks showing in a general way the amount and kind of business actually done under this provision and the assistance rendered to applicants in obtaining accommodations from other banking institutions would be useful in enabling the Board to keep informed



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as to progress being made. This was generally agreed to by those present and it was also suggested that there should be another meeting before long to compare notes.

There was some discussion of the domicile of loans and it was suggested that no rule be adopted on this question at the start, leaving it to the Federal Reserve Banks to work out particular cases between themselves.

There was some discussion of the purchase of trade acceptances under this provision but it was generally agreed that the requirement for security under the new law made it difficult to handle trade acceptances under this provision but that they could best be handled under the present law.

The governors present requested that the Federal Reserve Board's staff should draw up tentative forms for use in administering this provision.

Governor Meyer emphasized the opportunity that this provision offered for the Reserve banks to exercise a positive influence in making funds available for business.

The joint conference adjourned at 12:35.

The governors present then reconvened as a governors' conference, Governor Calkins presiding.

A report of the standing committee on collections was presented, and upon motion, adopted, with the understanding that practice should be uniform throughout the System.

Governor Fancher raised a question as to the value of the fidelity bonds now being carried by the System. This question was upon motion referred to the Insurance Committee.

The meeting adjourned at 12:45 p. m.

W. R. Burgess,
Secretary.