CONFIDENTIAL

~~TENTATIVE DRAFT SUBJECT TO CHANGE~~
See letter of December 28, 1932

MINUTES OF MEETING OF THE
OPEN MARKET POLICY CONFERENCE
TUESDAY, NOVEMBER 15, 1932,
WASHINGTON, D. C.

333.-C-2
11/15/32
Final Minutes

The meeting was called to order at 11 a. m., there being present the following:

Governor Harrison, chairman, and
Governors Young, Norris, Fancher,
Seay, Black, McDougal, Geery, Martin,
Hamilton, McKinney, and Calkins.

The Conference voted to receive and place on file the report of the secretary relating to operations in the system account since the last meeting of the Conference on July 14, 1932.

The chairman read to the Conference the preliminary memorandum which had previously been mailed to each member of the Conference. He then referred to the fact that at the Joint Conference the day before he had reviewed the Open Market operations of the system since last February, outlining policies and objectives and commenting upon the effects of those operations on the credit and banking position of the country. While it was not necessary again to review that general statement, he discussed the specific problem now before the Conference, that is, whether the system should buy more securities, sell some of the present holdings, or leave the account stationary. He mentioned that the net influence of the various forces affecting the excess reserve position of member banks in the next few weeks very probably would be in the direction of a reduction of those excess reserves. The gold inflow has lessened somewhat in the past several weeks, the rate of return of currency from hoarding has slackened and we are now facing the season when currency circulation might be expected to expand for holiday purposes. A different set of facts will exist after the turn of the year.

All of the members of the Conference were of the opinion that there is no occasion to buy more securities at the present time. The question for the

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decision of the Conference therefore was whether the system should now sell some of its present holdings or leave the account stationary. In discussing this question the chairman expressed his opinion that in all the circumstances which were mentioned the system should not sell now and that the question of when it should do so was one which should be determined later in the light of circumstances as they might develop in the future.

Governor McDougal stated that in his opinion there was certainly no reason for increasing the system account at the present time and that, while he would not recommend sales of present holdings at the moment, nevertheless, he thought it might be wise not to replace some of our December maturities.

Governor Seay said that in considering the problem we should keep in mind that the provisions of the Glass-Steagall Bill, authorizing the Reserve Banks to pledge government securities as collateral for Federal reserve notes expires on March 3 next unless further extended by Congress.

Governor Calkins suggested that it might be wise to authorize the Executive Committee to decrease the present holdings up to an amount of $150 million, provided the excess reserves of member banks do not go below $250 millions.

Governor Young said that it would be preferable not to make any change in the system holdings before the turn of the year; that he favored allowing some of our holdings to mature, but that it would be better to do so after the turn of the year rather than before. He felt, however, that even though we should not make any change in the account until after the turn of the year, it might be wise now through discreet but informal comment through the press to let the public know that a reduction in the account might be expected after the turn of the year.

Governor Fancher expressed the opinion that we should do nothing now, but that perhaps we should look towards a considerable reduction of our holdings during January.

Governor Hamilton stated that in his opinion it was important from the point of view of the banks of the country that we do nothing until the Treasury tax program is clear, perhaps sometime after December 15.

Governor Norris mentioned the importance of economy in government finance, but stated he did not believe there was much chance of an early adoption of an economy program. He then stated that he did not favor making any advance announcement of our program, as might be implied from Governor Young's remarks. He did feel, however, that at the time we do make a change in the system account it must be explained to the country through discreet publicity; not by any formal statement of the Federal Reserve Board or of any Federal reserve bank, but through unofficial advice to key newspaper men. Governor Norris agreed fully with the opinions previously expressed that there should be no change in the account at the present time.

Governor Seay remarked that while it is no doubt true that January might be a better time than the present to allow securities to run off, nevertheless, we must recognize the fact that we should take advantage of any favorable opportunity to do so, perhaps even during December.

Governor McDougal said he would like to see the system's holdings reduced; that there is too much reserve credit in the market and that while January might be a better opportunity, nevertheless, there is justification for doing so now, especially as we cannot see clearly what may be ahead of us and that we should take advantage of present opportunities.

Governor Norris then made the following motion:

> "that it is the consensus of the Conference that no change should be made at this time in the amount of the system holdings of government securities, and that there should be another meeting of the Open Market Policy Conference during the first week in January to consider the system's policy in the light of conditions as they exist at that time."

Following this motion, which was duly seconded, there was a discussion about the time of the meeting, Governor Calkins and Governor Seay raising the question whether it would be preferable to have it about the middle of December. Governor Seay then offered a substitute motion to the effect that the December maturities be allowed to run off without replacement and that there should be another meeting of the Open Market Policy Conference the first week in January. This motion was seconded by Governor McDougal, but when put to a vote it was not carried, Governor Seay and Governor McDougal voting in the affirmative, but the other ten governors voting in the negative. Governor Norris' motion was then carried unanimously.

After this action of the Conference there was a general discussion of the book profit in the system account with particular reference to the reserve that had been set up last year against losses existing at that time. It was the consensus of opinion that our present holdings should not be written up to market values but that the amount set up as reserve against losses last year should be restored to surplus.

The meeting adjourned at 1 o'clock.

George L. Harrison,
Chairman.

GLH:MAR