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MINUTES OF MEETING OF THE
OPEN MARKET POLICY CONFERENCE
WEDNESDAY, JANUARY 4, 1933,
WASHINGTON, D. C.

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Final notes
1/4/33

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

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

The secretary's report of operations was received, and placed on file.

The preliminary memorandum on credit conditions was distributed.

Governor Harrison pointed out that the present organization of the conference called for rotation in the membership of the executive committee, and it was moved and carried that the present executive committee be continued for another year.

Governor Young reported that the committee on banking legislation had been in session the previous day and had reached a general agreement. He indicated that the preliminary report of the committee would be mailed to the governors in a few days.

At 10:35 the members of the Federal Reserve Board entered the meeting, there being present:

Governor Meyer, Messrs. Hamlin, James, Miller, Magee, and
from the Board Staff Messrs. Floyd Harrison, Morrill,
Goldenweiser, Wyatt, Smead, McClelland, and Carpenter.

Dr. Goldenweiser reviewed the recent developments in the credit situation, and presented a memorandum on the subject prepared in the Board's Division of Research and Statistics. During Dr. Goldenweiser's statement the Chairman of the Board joined the meeting.

Governor Meyer stated that probably at no time since the war has the relation between the open market policy of the Federal Reserve System and the general economic situation been so important and that for this reason it is

DECLASSIFIED

Authority E.O. 10501

2

particularly necessary that the decision of the Open Market Policy Conference be of such a character as to be capable of expression in definite terms which will be understandable to the public and justify confidence in the soundness and stability of the System's policy. He referred to the agitation, especially in Congress, for the adoption of inflationary measures and pointed out that under conditions like these the System must of necessity give due consideration to such factors in reaching a determination as to future policy. He also stated that during his recent visits to seven of the Federal reserve banks, when he discussed the open market policy with the directors of those banks, he found what appeared to be general approval, and he expressed the opinion that the policies of the System, in the light of conditions which have existed during the last two years, have been remarkably free from public criticism.

The Secretary of the Conference then read the preliminary memorandum on credit conditions previously distributed.

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Secretary Mills on request reviewed the budgetary situation of the government. He also reviewed the proposals for inflation which were being made to the Congress and suggested that any slackening in Federal reserve open market policy might provide an excuse for an unsound inflation bill. Secretary Mills pointed out, however, that the Treasury itself was not directly or indirectly interested in the decision the open market policy conference might reach. The Treasury should pay the market price for its money and should not expect, for example, to take advantage of any abnormal situation for a large refunding operation. Policy should be determined independently of the Treasury position.

As a basis for discussion by the Conference, Governor Harrison then outlined the various arguments both for and against some reduction in the security holdings of Federal reserve banks. He suggested the following arguments in favor of some reduction.

DECLASSIFIED

Authority E.O. 10501

3

(1) The System open market policy had not been one to accumulate any definite amount of securities but rather to check deflation through the reduction of bank debt and the creation of substantial excess reserves, which had been accomplished. It had been generally agreed that after a substantial effective pressure had been secured the System would reduce its security holdings as soon as possible without relieving that pressure. The turn of the year appeared to offer the best chance to decrease the amount of securities without reducing member bank reserves and so not changing policy. If this opportunity were not used during January it might not be feasible to liquidate for a year without decreasing bank reserves and thus giving the appearance of a change in policy.

(2) Any further substantial increase in excess reserves might not in fact increase effective pressure and would thus serve only to minimize control when necessary.

(3) Though it was not the motive the fact that the Reserve banks have bought so large amounts of government securities has in fact enabled the Treasury to borrow cheaply and so in some measure has encouraged the continuance of an unbalanced budget.

Governor Harrison suggested the following arguments in favor of holding the government portfolio intact.

(1) There is danger that a reduction in security holdings might be construed as a reversal of policy which might in turn increase the danger of the adoption of some radical inflationary policy by Congress since the most effective argument against such inflation is that an orderly policy of deflation is now at work. Any move so interpreted also might be discouraging to business or to bankers holding a large volume of government securities, who might start to liquidate.

(2) A reduction in the total holdings might operate as a check to the bond market thus retarding business recovery and further injuring bond portfolios of banks.

(3) One question was the effectiveness of varying amounts of excess reserves. There are indications that interest on deposits in principal centers might be eliminated. It is difficult to trace the effects of such a move but if limited to bank deposits it would probably distribute the pressure for putting money to work more widely and would thus justify a larger total of excess reserves.

Governor Harrison further suggested that any reduction in security holdings should in any event not exceed the return flow of currency, and that the System should not attempt to offset gold imports since that might be interpreted as constituting a policy of sterilization of gold.

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Authority E.O. 10501

4

Governor Meyer suggested that what is most required is assurance as to the continuance of the pressure of excess reserves.

✓ Mr. Miller suggested that the precise amount of excess reserves maintained was an incidental detail, but that the important question was one of policy and direction of movement, and that there might be harm in stopping excess reserves from accumulating.

There ensued a general discussion during which the question was raised whether country banks could and would make use of excess reserves if driven back from the centers. Governor Martin pointed out that fear of bank failures was preventing banks from using their excess reserves and if that situation were corrected the excess reserves would be put to use.

Governor Calkins emphasized the same difficulty, particularly in relation to agricultural banks.

Governor Meyer pointed out that one effect of the policy had been to relieve greatly the finances of cities and states, so that they could secure money in the market for relief and other necessary activities. This was helpful in keeping the social organization going.

Governor Norris raised the question of the probable renewal of the provisions of Sections 2 and 3 of the Glass Steagall bill, and in general discussion it was suggested that there would probably be little difficulty in the renewal of the provisions referred to, and that in any event the situation of the banks with respect to collateral for Federal reserve notes could not be relieved by the sale of any reasonable amount of government securities.

There ensued some further discussion of the use of excess reserves and the probable effects of a discontinuance of interest on deposits in New York should that occur. There was some difference of opinion as to the extent to which an excess of reserves would be put to use by banks if it were distributed more widely throughout the country, some expressing the belief that the funds would be

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Authority E.O. 10501

5

put to use in investments or somewhat freer lending, and others expressing the opposite opinion.

The meeting adjourned at 1:10 p. m.

The meeting reconvened at 2:25 p. m., there being present the following:

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

After some further general discussion each of the governors stated his views which may be summarized briefly as follows:

Governor Black said that while he saw no economic reasons for not letting maturities run off he was greatly impressed by the dangers of unsound inflationary proposals and believed that they could only be combated by the continuance of the present policy of the Federal Reserve System.

Governor Geery favored letting January maturities run off after making a statement that the policy of maintaining excess reserves would be continued. Future policy could be governed by the effects of this operation.

Governor Seay believed that the dangers of a further accumulation of reserves were greater than those of disposing of some securities. He believed a statement that there was no change in policy would be adequate to deal with political problems which have a way of not materializing. He would let not less than \$200,000,000 of securities go.

Governor Young emphasized the opportunity in January for letting governments go without interfering with excess reserves. He would let January maturities run off and perhaps those of February and would try to speed up the renewal of the Glass Steagall bill.

Governor Calkins stated that he was not impressed by the political argument and particularly with the System's power to deal with inflationists. He was not a supporter of the theory that excess reserves were effective in expanding credit. He would, however, let a smaller amount of governments than the January

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Authority E.O. 10501

6

maturities run off and not decide yet about February.

Governor Martin thought the elimination of interest on deposits would result in hoarding and other difficulties. He believed the banking situation must be straightened out before excess reserves would have their full effect. He would favor letting some securities run off, with the executive committee keeping in close touch with the results.

✓ Governor Hamilton believed the System should not base its action on the political situation. He would favor letting January maturities run off and having another meeting to decide on February maturities. He considered it important to explain the action to the public. ✓

Governor Fancher thought an elimination of interest charges due to increasing reserves would be undesirable. He believed some of the maturities in January should not be replaced, relating any changes to the return flow of currency.

Governor Norris suggested that further increases in excess reserves would adversely affect bank earnings and incur the risk of disturbance which might arise from eliminating interest on deposits. As to political effects one danger was the encouragement to an unbalanced budget. The other related to inflationary proposals. He believed this latter difficulty could be met by a careful statement of policy. He would favor letting January maturities run off to the extent of the currency return but would only favor doing this if an explanation were made. If no explanation were made he would favor maintaining the portfolio.

unsubstantiated ✓ Governor McDougal believed that further increase in excess reserves would be unwise and that reductions in the portfolio might make open market money rates firmer and strengthen the position of the Reserve System. He favored letting at least January maturities run off; and would prefer to include the February maturities. ✓

DECLASSIFIED
Authority E.O. 10501

7

Governor McKinney did not favor giving too much consideration to the political aspects. He said he would permit the greater portion of January maturities to run off, adding that, in his judgment, such action would have a heartening effect on the banks, in his district at least, as well as tend to create in the public mind generally the belief that because of improved conditions it is no longer necessary to rigidly maintain a fixed amount of Government securities in the System.

Governor Harrison said he had felt all along that some securities should be allowed to run off in January but he attached considerable weight to the dangers of the inflationary movement all over the country. He feared misinterpretation of sales by the banks, the market, and by Congress, but believed that this difficulty might be largely avoided if the policy were clearly understood to be one of continuing to maintain substantial excess reserves in present conditions. This might involve purchases as well as sales of securities.

The conference then proceeded to draft a resolution, starting with a motion by Governor Calkins that the executive committee be authorized to dispose of \$100,000,000 to \$125,000,000 of securities in January to offset currency returns. Before adjournment a preliminary draft of the resolution was voted upon favorably, Governors McDougal, Seay, and Black, voting in the negative. It was decided to hold a further meeting in the morning, and since Governor Black was unable to stay until morning he desired to record his dissent from any proposal for reducing the System portfolio, as follows:

"I am in accord with the economic reasons given by the Conference for the proposed reduction in governments. I, however, have an intense feeling that the present situation as to proposed inflationary measures creates a new condition that is most serious and should be persuasive of action resulting in maintaining our present holdings; and I therefore vote 'no' on the present motion."

After further discussion of the draft resolution the meeting adjourned

at 6:05 p. m.

DECLASSIFIED

Authority E.O. 10501

8

January 5, 1933.

The meeting was called to order at 10:06 a. m., there being present the following:

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

The discussion of the draft resolution was continued, and after further modifications, it was passed by unanimous vote in the following form:

It is the sense of the Open Market Policy Conference that there should be no change in the System's policy intended to maintain a substantial amount of excess member bank reserves inasmuch as the continuance of excess reserves in substantial amounts is desirable in present conditions. In view of the return flow of currency during January and prospective gold movements the amount of excess reserves may rise considerably above the present level which is deemed appropriate under present conditions.

BE IT RESOLVED, THEREFORE, That, pending another meeting of the Conference, the Executive Committee be given authority (a) to reduce the System's holdings of short term Treasury bills in order to offset such amount of the return flow of currency as may seem desirable, provided such action does not result in any substantial reduction in existing excess reserves and (b) if necessary, to purchase Government securities in sufficient amounts to prevent member bank excess reserves falling below the present general level.

Governors Seay and McDougal desired to be recorded as voting with a reservation. They believed that the proposal represented a step in the right direction but would prefer to see a larger reduction in the portfolio and did not favor the maintenance of as large excess reserves as at present. Some reservation as to the value of the maintenance of the present volume of excess reserves was expressed by several of the governors.

Governor Young said he was voting for the resolution because he believed it to be a step in the right direction and not because he had changed his views in reference to excess reserves.

DECLASSIFIED

Authority E.O. 10501

9

It was understood informally that the resolution should be interpreted by the executive committee as follows:

✓ (1) Treasury bills up to \$125,000,000 would be allowed to run off in January to the extent that there is a return flow of currency, but not to bring excess reserves below \$500,000,000.

(2) When the resolution refers to the present level of reserves it means approximately \$500,000,000.

(5) When the resolution refers to the return flow of currency it means the return flow from the December peak just before Christmas.

(4) There would be another meeting of the Conference before any increase in the System holdings of government securities above \$1,851,000,000.

At 11:00 a. m. o'clock the members of the Federal Reserve Board entered the meeting, there being present, in addition to the governors of the Federal reserve banks, the following:

Governor Meyer, Messrs. Miller, Hamlin, James, Magee, Morrill, Harrison, Wyatt, McClelland, and Carpenter.

The resolution adopted by the Conference was presented to the Board and unanimously approved by it.

Governor Meyer expressed satisfaction with the form of resolution in that it provided a more scientific basis for action than the usual resolution which simply indicated a definite amount of securities to be bought or sold. The resolution gives assurance to banks and business men as to the continuation of easy money and should help make the policy more effective. Governor Meyer then stated that it is the opinion of the Federal Reserve Board that the governors of the Federal reserve banks can contribute a great deal to the success of the System open market policy by explaining to member banks in a positive way, whenever an opportunity is afforded, the purposes sought to be accomplished by the policy.

Governor Harrison reported the interpretations of the resolution upon which the conference was agreed.

DECLASSIFIED

Authority E.O. 10501

10

There ensued a general discussion of what if any statement might be given to the press, and Dr. Miller and Mr. Hamlin, and Governors Harrison and Norris were constituted a committee to draft a statement, and they withdrew to prepare a statement.

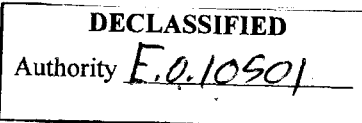
At 12:52 p. m., the committee returned and the following statement was read and adopted without dissent:

The Open Market Policy Conference of the Federal Reserve System, with representatives from all of the twelve Federal reserve banks in attendance, concluded its meetings with the Federal Reserve Board today. The sessions of the Conference were devoted to a review of economic, business, financial and banking conditions in each of the twelve Federal reserve districts and to the economic and financial situation in the country as a whole. Particular reference was made in the discussions to the workings and effects of the open market policy thus far pursued by the Federal Reserve System during the course of the economic depression. Consideration was also given to the attitude of the System in adjusting its operations to conditions and needs as they may change and develop.

✓ The first and immediate objective of the open market policy was to contribute factors of safety and stability in meeting the forces of deflation. The larger objectives of the System's open market policy, to assist and accelerate the forces of economic recovery, are now assuming importance.

With this purpose in mind, the Conference has decided that there should be no change in the System's policy intended to maintain a substantial amount of excess member bank reserves, the continuance of which is deemed desirable in present conditions. Adjustments in the System's holdings in the open market account will be in accordance with this policy.

Governor Meyer said that the Board had approved reductions in the rate on 10-B loans in the case of two reserve banks and would be glad to act upon other applications.



11

Governor Meyer suggested the importance of building up the man power of the Reserve System by bringing in able young men. There ensued some discussion of the aid which an adequate pension plan would give to this proposal, and it was indicated that the Board was studying the recommendations of the governors upon that point.

At 1:00 p. m., the meeting adjourned.

W. Randolph Burgess,
Secretary.