FEDERAL RESERVE BANK

OF NEW YORK

March 23, 1932.

Dear Governor Martin:

The enclosed copy of the minutes of the meeting of the governors held in Washington on February 24 and 25 incorporates all the suggestions which have been received from the Federal Reserve Board and from the governors. Will you please substitute this copy for the preliminary draft sent you on February 27.

Very truly yours,

W Randolph Burgess

W. Randolph Burgess
Deputy Governor

Mr. William McC. Martin,
Governor, Federal Reserve Bank,
St. Louis, Missouri.

WRB.H
encl.

CONFIDENTIAL

MINUTES OF THE MEETING OF GOVERNORS
HELD AT WASHINGTON, D. C., FEBRUARY 24 and 25, 1932.

February 24, 1932.

The meeting was called to order at 10:20 a. m., Governor Meyer in the Chair, there being present:

From the Federal Reserve Board
Secretary Mills, Governor Meyer, Messrs. Hamlin, James, Magee and Miller,
Messrs. Floyd Harrison, Morrill, Goldenweiser, Wyatt and McClelland,
From the Federal reserve banks
Governors Young, Harrison, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, Hamilton, McKinney, and Deputy Governor Burgess, (secretary pro tem).

Governor Meyer indicated that with the Glass-Steagall bill in conference and likely to be acted upon in the immediate future, it seemed wise to have a meeting of the governors both for a consideration of general policy and a consideration of the procedure to be adopted by the Federal Reserve System under the powers conferred by this bill.

With respect to the provision of the bill for loans to groups of banks, Governors McDougal and Fancher suggested that the law would operate effectively in principal clearing house centers, but would prove difficult elsewhere. Governor Norris suggested that this clause would provide an additional impetus toward organizing county clearing houses and thus towards developing group responsibility and group examinations.

There ensued a general discussion of the provision of the bill for the use of government securities as collateral for Federal reserve notes. Question was raised whether, if action were taken under this provision, it would be better to transfer a large block of government securities at once for use as collateral or whether it would be better to do it gradually as each bank had need. With respect to publicity it seemed clear that it would be necessary because of the public interest in the matter to report separately the amount of government securities being used from time to time as collateral for Federal reserve notes. This amount could in any event be computed from figures now published. A possible program suggested was that enough governments should be transferred to bring the free gold to $500,000,000, and that the free gold be kept at that figure. A differing point of view was that it might be well to show the maximum of free gold at once. Another possibility suggested was that governments be transferred to collateral only as required by each bank.

With reference to the general question of loans against collateral other than eligible paper, a number of the governors pointed out the dangers in the Federal Reserve System's becoming loaded down with loans of this sort. From this point of view it was recognized that the provisions in the new Act should be administered cautiously.

It was pointed out by Dr. Miller that if loans on ineligible paper should make it possible for a bank to make eligible loans, eligible paper would thus be provided to repay the first loan.

Mr. James, Governor Harrison, and others suggested that whatever regulations were adopted should guard against the implication that the bill constituted in any sense a guaranty of deposits of member banks, and should safeguard the Reserve banks against becoming unduly loaded with ineligible paper, but that the regulations adopted should not be too rigid, because of great differences in banking conditions between different parts of the country and the lack of experience with loans of this sort which may make it necessary to modify the procedure from time to time.

Both Governor Meyer and Dr. Miller pointed out that it must be assumed that the tide will turn some time; that the Reconstruction Finance Corporation was making loans upon that assumption; and that was a necessary assumption for Federal reserve operations.

With regard to the relationship between loans by the Reserve banks and loans by the Reconstruction Finance Corporation Governor Meyer suggested that cases requiring loans for relatively short periods should be handled by the Federal Reserve System, and that cases where a longer time use of money was clearly necessary should be handled by the Reconstruction Finance Corporation.

The meeting adjourned at 1:00 p. m., to reconvene in the afternoon as an Open Market Policy Conference.

The meeting of the Open Market Policy Conference was called to order at 2:40 p. m., there being present

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

There was further informal discussion of the character of regulations which might be adopted to govern operations under Section 10(b) of the Glass-Steagall Bill in order to avoid having the Reserve banks loaded up with loans on ineligible paper. Suggestions to that purpose were that the discount rate upon these loans should be at least 2% above the discount rate, that no time note for a period longer than 90 days should be taken, that the collateral which might be taken should be defined in a regulation, that the aggregate advances made under the provision might well be limited to some percentage of the reserve deposits of the Federal reserve banks or to the total surplus.

Governor Black suggested there was danger that limitations prescribed in regulations as to the amount of these loans might be construed as tending to defeat the purpose of the Congress, and would tend to interfere with the good psychological effect produced by the passage of the bill.

Governor Young stated that he believed that the group plan constituting Section 10(a) of the bill would not prove effective since it would be impossible to organize groups of this sort.

At 3:50 Governor Meyer entered the meeting, and there was continued discussion of possible regulations and particularly of what rate should be charged on advances under the bill. Governor Norris suggested that the rates charged on loans made under Section 10(a) and 10(b) should probably be the same in order to avoid discriminating against country banks which would presumably borrow largely under provisions of 10(b) Governor Meyer indicated that something was to be said for a flat 5 1/2% rate which would correspond to the rate now being charged by the Reconstruction Finance Corporation.

At 4:06 p. m., the Secretary of the Treasury and Messrs. Magee, Miller, Hamlin, James, Morrill, Wyatt, and McClelland entered the meeting.

There ensued a general discussion of the regulations which might govern loans under 10(b) of the Glass-Steagall bill.

The meeting then proceeded to a discussion of open market policy.

Governor Harrison reviewed the action of the conference in January authorizing the executive committee, if the occasion arose, to purchase up to $200,000,000 of government securities. He indicated that action had not been taken under that authorization, partly because various elements in the domestic program have developed more slowly than had been anticipated, partly because of gold withdrawals to Europe, and partly because of the limited amount of free gold held by the System. These conditions were all being modified in a favorable direction at the present time, and the question might now be raised upon the merits whether it might be well to proceed with the program as originally planned. The important reason for considering action at this time was the continued rapid deflation of bank credit which was a seriously depressing influence on the whole business structure and the price level.

Governor Meyer added that the question of buying government securities also related itself to hoarding; that it seemed unnecessary for the banking position to be subjected to severe strain because of the funds withdrawn for hoarding, when the Reserve System under the new bill has the necessary power by the purchase of government securities to relieve the banks from some of their indebtedness to the Reserve banks. He said he did not believe that buying governments alone would control the situation, but the operations of various favorable factors, including the Reconstruction Finance Corporation, would be aided by a gradual purchase of government securities which would help the banks to reduce their bills payable, and so lighten the pressure on the credit situation.

The question was raised whether the purchase of governments in the centers would relieve the country banks which are most heavily in debt. Governor Meyer responded that he believed that the money pool was so liquid and money circulated so freely that purchases in the centers would at least in part relieve pressure in the interior. Governor Harrison pointed out that a Treasury program of selling obligations in the centers, the proceeds of which would be distributed by the Treasury throughout the country, would have the effect of relieving the situation and making funds put into the New York market available elsewhere.

Governor Harrison further pointed out that the country's gold stock had been reduced by about $100,000,000 in the first two months of the year, with no offsetting gains to the market, and that further gold losses at the rate of about $50,000,000 a month were to be anticipated. The purchase of government securities would have the effect of offsetting this gold loss and preventing it from causing an increase in rediscounts.

Governor Meyer pointed out that the Reconstruction Finance Corporation was making many loans which it was hoped would have a favorable psychological effect; that at the present time the public state of mind was a major factor; and that no single sentimental factor was so important in the minds of the public as the purchase of government securities by the Federal Reserve System. Various factors in the situation look hopeful, and it seems a prudent time to act.

Governor Seay said that while he had opposed purchases at the last previous Conference he now believed the time had come to lay down a barrage all along the line, that there was now a better justification for purchases of governments than at any time in eighteen months.

Governor McDougal said that he was not clear what good would come from investing in government securities now, and that, with the doors open as the new bill provides, the Reserve banks are liable to be called upon for additional amounts of funds which would have the same effects on the System's reserves as buying government securities. He would be opposed to purchases at least until after there was opportunity to see what pressure arises from the new legislation. On general principles he preferred to see the banks borrowing to secure funds.

Dr. Miller stated that he believed there was never a safer time to operate boldly than at present. He indicated that he would approve purchases on an even larger scale than the amounts being discussed.

There ensued a general discussion of the desirability of discount rate changes in addition to security purchases, and the general opinion was expressed that rate changes in the interior districts were not as important as they had appeared to be in January, in view of the hope and anticipation that a large part of the new issues of government securities would probably be taken by eastern centers, with the result of drawing money from the money market to other parts of the country.

Governor Martin suggested that one effect of the Glass-Steagall bill in his district had been to make many banks more cautious because they felt there was something hidden in the situation which they did not know.

Governor Norris said that he would approve the purchases if he were confident that all of our serious troubles were behind us, that he feared further possible bank failures, further commercial failures and possible municipal defaults, and raised the question of what might be accomplished by a purchase of government securities, particularly in view of the question whether funds so placed in the market would be distributed through the country.

Secretary Mills replied that the pressure of gold exports came directly upon New York where most of the purchases would presumably be made, and that, furthermore, the New York banks would have to carry the major part of the load on government financing, and that the money so raised would then be distributed by the government all over the country. In this way a very direct method of distributing funds was provided.

Governor Norris indicated that he was satisfied with this reply.

Governor Harrison then offered the following resolution:

> "It is moved that it is the sense of the conference that, subject to the approval of the Federal Reserve Board, the Executive Committee shall be authorized to purchase up to $250,000,000 of government securities for System account at the approximate rate of $25,000,000 per week. It is understood that purchases under this program shall be made after a meeting of the Executive Committee called for the purpose of considering such purchases and that the program shall be subject to review by the Conference at any time on call of the Conference or the Federal Reserve Board."

At 6:04 the members of the Federal Reserve Board withdrew from the meeting. After some further general discussion the resolution was adopted, Governors Young and McDougal voting in the negative. The meeting adjourned at 6:15 p. m.

At 6:15 a meeting of the executive committee of the Open Market Policy Conference was convened and received a report that the Board had approved the resolution adopted by the Open Market Policy Conference. The executive committee then voted by a vote of 3 to 2 to start the program as authorized the end of this week or beginning of next week.

The meeting adjourned at 6:20 p. m.

A meeting of the Governors Conference was convened at 10:20 on February 25, 1932, there being present

> Governors Norris, Fancher, McDougal, Geery, Martin, Hamilton, and McKinney, Deputy Governor Burgess (secretary pro tem).

On motion Governor Norris was elected chairman pro tem.

The conference proceeded to a discussion of the method of operations to be adopted under the Glass-Steagall bill. After some general discussion the following resolution was adopted:

"The conference believes it desirable that as promptly as possible a regulation or letter be issued by the Federal Reserve Board outlining principles and procedure under Section 10(a) and 10(b) of the Glass-Steagall bill, and the Governors present are prepared to aid in the preparation of this material in any way desired.

This motion was submitted to the Federal Reserve Board with the suggestion that the governors would make available two or three people to work with somebody in the Board in drawing up the forms, etc., if the Board desired. After receiving this suggestion the Federal Reserve Board notified the Conference that the Secretary of the Board, with the assistance of the Board's counsel, would discuss the matter with such representatives of the banks as might be selected by them to work out the procedure and forms, it being understood that the procedure proposed to be followed will be reviewed by all Federal reserve banks and counsel before it is submitted to the Board for consideration. The governors, thereupon, designated Messrs. Rounds (New York), Zurlinden (Cleveland), and Donaldson (Philadelphia), a committee to deal with this matter with the general understanding that they could employ or requisition any help that they required.

The question of organizing groups under Section 10(a) of the bill was discussed, and it was the sense of the meeting that when material as to procedure was available it should be explained to key men in the different districts, letting these men use their judgment as to the extent to which groups should be organized. It was recognized that there was danger in the Reserve banks undertaking to stimulate the definitive organization of groups because that would lead to a discussion of the problem by boards of directors, to differences of opinion, and perhaps make it more rather than less difficult to take care of any situation that might arise.

It was the general opinion that it should be made clear to city banks that the purpose of this plan is not to relieve correspondent banks.

The question of definition of collateral to be accepted under section 10(b) was discussed. Some of the governors at first favored some negative definition as to collateral which should not be accepted, but finally agreed that a definition of collateral would probably be unsatisfactory because any definition might include some undesirable paper and exclude some desirable paper and could not provide adequately for differences between districts.

The question of relating the total volume of these loans to some figure like the Reserve bank surplus was discussed, and it was recognized that there was danger of interfering with the good psychological effect of the passage of the bill by naming any maximum figure.

The Conference also discussed Provision 10(c) of the Glass-Steagall Bill relating to the use of government securities as collateral for Federal reserve notes. The governors generally expressed the belief that the one year limitation included in the final form of the Act should not interfere with the System's operating under this provision.

There was informal consideration of some limitation which might be placed upon the amount of government securities which might be pledged against notes. One suggestion was that it should be limited to 20 per cent of the outstanding circulation of each bank. Another suggestion was that the amount of free gold should be constantly maintained at $500,000,000. There appeared to be general agreement that while the Board might make a general authorization of a maximum use of governments the banks should be free to act within that maximum to as great or as small an extent as each desired. The meeting adjourned at 12:15 p. m.

W. Randolph Burgess,
Secretary pro tem.