The Papers of Charles Hamlin (mss24661)

361_08_001-	Hamlin, Charles S., Scrap Book – Volume 184, FRBoard Members

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Scrap Book - Volume 184
FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 24, 1941

To The Files

Subject:

From Mr. Coe

MPC.

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 184 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 184

Page 10
(X-6154) Eligibility of paper rediscounted for Federal Intermediate Credit Banks as collateral security for F.R. notes.

Page 13
Earnings and Expenses of F.R. Banks.

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Letter to Gov. Young from Gov. Case enclosing a table showing Increase in Federal Reserve Bank Credit.

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Memo on Credit Conditions Presented by Gov. Harding to the Federal Reserve Board on August 13, 1928.

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Sec All

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6154

October 9, 1928.

SUBJECT: Eligibility of paper rediscounted for Federal Intermediate Credit Banks as collateral security for Federal reserve notes.

Dear Sir:

The Federal Reserve Board has recently been asked for a ruling on the question whether agricultural paper rediscounted by a Federal reserve bank for a Federal Intermediate Credit Bank under the provisions of Section 13(a) of the Federal Reserve Act may be used as collateral security for Federal reserve notes.

After considering this question the Board has reached the conclusion that notes, drafts and bills of exchange rediscounted by a Federal reserve bank for a Federal Intermediate Credit Bank under the provisions of Section 13(a) may lawfully be used as collateral security for Federal reserve notes. Section 13(a) provides that upon the endorsement of a member bank a Federal reserve bank may discount notes, drafts and bills of exchange issued or drawn for an agricultural purpose or based upon live stock and having a maturity not exceeding nine months and makes such notes, drafts and bills eligible as collateral security for Federal reserve notes. It is then provided that Federal reserve banks may "rediscount such notes, drafts and bills for any Federal Intermediate Credit Bank" (with a stated exception). In the Board's opinion it is the intention of the statute that all notes, drafts and bills lawfully discounted by a Federal reserve bank under the provisions of Section 13(a), whether rediscounted for a member bank or for a Federal Intermediate Credit Bank, may be used as collateral security for the issuance of Federal reserve notes. Where the maturity of such paper exceeds six months, it must, in order to be used as security for Federal reserve notes, be secured by warehouse receipts or other such documents as required by the statute.

In this connection it may be noted that the Federal Reserve Board is authorized to prescribe regulations and limitations governing the rediscount of notes, drafts and bills for Federal Intermediate Credit Banks. This authority clearly is broad enough to permit the Board to regulate, limit or prohibit the use of such paper rediscounted for Federal Intermediate Credit Banks as collateral security for Federal reserve notes, if at any time it sees fit to do so.

By order of the Federal Reserve Board.

Very truly yours,

J. C. Noell,
Assistant Secretary.

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PAGE 10

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

SEPTEMBER 1928. Total earnings of the Federal reserve banks in September were $178,000 more than in August, though earnings were accrued for one day less in September. Earnings from purchased bills increased $171,000, from U. S. securities $98,000 and from miscellaneous sources $18,000, but these increases were partly offset by a decrease of $109,000 in earnings from discounted bills.

Current expenses (exclusive of cost of Federal reserve currency) aggregated $2,158,000, as compared with $2,199,000 in the month preceding and $2,096,000 in September of last year.

NINE MONTHS ENDING SEPTEMBER 29. During the nine months ending September 29 earnings totaled $43,933,000 as compared with $31,029,000 last year and $34,398,000 for the corresponding period in 1926.

Current expenses (exclusive of cost of Federal reserve currency) amounted to $19,508,000, an increase of $228,000 over the corresponding period of last year.

After providing for all current expense and dividend requirements, the Federal reserve banks on September 29 had a balance of $15,901,000 available for losses, depreciation allowances, surplus and franchise tax, as compared with a balance of $12,855,000 at the end of August and of $4,195,000 at the end of September 1927.

St. 5938a

Mr. Hamlin

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Not for publication

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, SEPTEMBER 1928

St. 5938

Federal Reserve Bank	Month of September 1928									January - September 1928		
	Earnings from -					Current expenses		Current net earnings		Current net earnings	Dividends accrued	Available for reserves, surplus and franchise tax*
	Discounted bills	Purchased bills	U. S. securities	Other sources	Total	Exclusive of cost of F.R. currency	Total	Amount	Ratio to paid-in capital			
									Per cent			
Boston	$200,380	$79,737	$29,303	$3,837	$313,257	$149,750	$152,788	$160,469	19.5	$1,799,459	$437,239	$1,249,739
New York	1,436,769	232,877	202,450	16,113	1,888,209	509,594	519,982	1,368,227	34.0	7,743,466	1,998,767	5,410,465
Philadelphia	441,063	45,548	67,031	1,077	554,719	173,713	172,520	382,199	32.4	2,340,167	625,625	1,618,113
Cleveland	318,899	77,525	111,671	10,574	518,669	208,611	211,758	306,911	26.2	2,266,478	640,983	1,528,265
Richmond	234,229	32,625	8,288	3,760	278,902	114,558	114,614	164,288	32.9	942,607	279,090	594,193
Atlanta	333,679	45,644	17,887	10,568	407,778	97,535	98,623	309,155	72.0	1,394,660	233,748	1,118,640
Chicago	472,201	60,011	113,890	33,547	679,649	288,742	292,458	387,191	25.9	3,332,595	823,179	2,313,459
St. Louis	262,582	36	12,649	1,358	276,625	107,816	108,587	168,038	38.0	1,023,906	240,781	386,366
Minneapolis	64,840	34,781	35,650	5,290	140,561	79,660	80,147	60,414	24.5	437,979	135,048	265,220
Kansas City	89,888	47,147	54,545	22,870	214,450	131,925	132,623	81,827	23.8	536,115	190,125	287,803
Dallas	109,856	48,328	47,021	8,931	214,136	104,249	106,221	107,915	30.6	483,177	193,756	229,887
San Francisco	321,532	119,952	55,264	5,014	501,762	191,972	191,910	309,852	34.8	1,447,388	462,605	898,350
TOTAL												
Sept. 1928	4,285,918	824,211	755,649	122,939	5,988,717	2,158,125	2,182,231	3,806,486	32.0			
Aug. 1928	4,394,560	652,890	657,491	105,322	5,810,263	2,199,492	2,222,059	3,588,204	29.4			
Sept. 1927	1,258,889	583,221	1,386,222	448,288	3,676,620	2,095,687	2,244,392	1,432,228	13.3			
Jan.-Sept. 1928	26,355,172	7,975,918	8,335,996	1,265,707	43,932,793	19,508,129	20,184,796	23,747,997	22.8	23,747,997	6,260,946	15,900,500
1927	12,970,849	6,540,965	9,509,709	2,007,103	31,028,626	19,279,940	20,660,062	10,368,564	10.8	10,368,564	5,780,359	4,195,328

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
OCTOBER 10, 1928

*After adjustment for current profit and loss entries, purchases of furniture and equipment, etc.

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X-4678
(Superseding X-4545)

BY-LAWS OF THE FEDERAL RESERVE BOARD

EFFECTIVE SEPTEMBER 23, 1926.

Article 1.

The Chairman.

The Secretary of the Treasury, as Chairman of the Board, shall preside at all meetings when present. In the absence of the Chairman, the Governor shall act as presiding officer. In the absence of both the Chairman and the Governor, the Vice-Governor shall preside, and in the absence of all three such officers, the remaining member of the Executive Committee shall preside.

Article 11.

The Governor.

Sec. 1. The Governor of the Federal Reserve Board shall be the active executive officer thereof; subject, however, to the supervision of the Board and to such rules and regulations as may be incorporated herein or may from time to time, by resolution, be established.

Sec. 2. The Governor shall have general charge of the executive and routine business of the Board not specifically assigned under the by-laws or by resolution of the Board to any individual member or committee thereof, and shall have supervision of the Board's staff.

Sec. 3. The Governor shall be an ex-officio member of all Standing Committees of the Board.

Article 111.

The Vice-Governor.

Sec. 1. In the absence or disability of the Governor, his powers shall be exercised and his duties discharged by the Vice-Governor, and in the absence or disability of both of these officers, such powers shall be exercised and such duties discharged by the remaining member of the Executive Committee; in the absence or disability of all members of the Executive Committee the powers and duties of the Governor shall be exercised by the senior member of the Board present.

Sec. 2. It shall be the duty of the Vice-Governor to cooperate with the Governor in the administration of the executive business of the Board.

Article IV.

Secretary and Assistant Secretaries.

Sec. 1. The Board shall appoint a Secretary and one or more assistant secretaries.

Sec. 2. The Secretary shall keep an accurate record of the proceedings of the Board and shall conduct such correspondence and perform such other duties as may be assigned to him by the Governor or by the Board. In the absence or disability of the Secretary, the duties of that office may, by direction of the Board, be performed by an assistant secretary.

Sec. 3. The Secretary shall have custody of the seal and, acting under the authority of the Board, shall have power to affix same to all instruments requiring it. Such instruments shall be attested by the Secretary.

Sec. 4. The assistant secretaries shall each perform such duties as may be assigned to them from time to time by the Board or by the Secretary.

Article V.

Assistant to the Governor.

Sec. 1. The Board may authorize appointment of an Assistant to the Governor.

Sec. 2. The Assistant to the Governor shall perform such duties as shall be assigned to him by the Governor.

Article VI.

The Executive Committee.

Sec. 1. There shall be an Executive Committee of the Board consisting of three members, which shall include the Governor, Vice-Governor and one of the appointive members of the Board. The appointive member of the Committee shall be nominated and elected at a regular meeting of the Board. Members of the Board shall serve as far as practicable in rotation and for approximately equal terms. The presence of three members shall be requisite for the transaction of business by the Executive Committee, and action shall be taken only on unanimous vote of the Committee.

Sec. 2. In the absence of the Governor and Vice-Governor the appointive member of the Executive Committee shall act as Chairman and shall, with two other appointive members of the Board present in Washington to be chosen by him in the order of their seniority, exercise the powers and discharge the duties of the Executive Committee. In the absence of all three regular members of the Executive Committee the three remaining appointive members of the Board, provided there be three in Washington, shall act as an interim committee and exercise the powers and discharge the duties of the Executive Committee, the senior member acting as Chairman.

Sec.3. It shall be the duty of the Executive Committee to review and submit drafts of important correspondence involving the expression of opinions or decisions of the Board, and to prepare and make recommendations governing the conduct of the Board's business.

Sec.4. The Executive Committee shall also have charge of all matters appertaining to the internal organization of the Board, and shall make recommendations from time to time on this matter. It shall also prepare annually a budget of proposed expenditures.

Sec.5. In the absence of a quorum of the Federal Reserve Board and for the transaction of business requiring action during the absence of such quorum, the Executive Committee is authorized to transact business which can be transacted in accordance with established principles and policies of the Board and to perform such additional duties as may be specifically delegated to it from time to time by instruction of the Federal Reserve Board.

The Secretary of the Board shall serve as Secretary of the Executive Committee.

Article VII.

Standing Committees.

In addition to the Executive Committee there shall be the following Standing Committees, appointments to which shall be made by the Governor, subject to the approval of the Board.

Sec.1. Law.

To the Law Committee shall be referred for study and report all questions of a legal nature. To this Committee shall also be assigned the preparation or revision of the Board's regulations, contemplated amendments to the Federal Reserve Act, applications under the Kern amendment to the Clayton Act, and applications for the exercise by national banks of trust powers.

The General Counsel shall serve as Secretary of the Committee.

Sec.2. Examination.

To this Committee shall be referred all questions relating to the examination of Federal Reserve or member banks including admission of state banks and permission to establish and operate branches.

The Chief Examiner shall serve as Secretary of this Committee.

Sec. 3. Research and Statistics.

This Committee shall have charge of all investigations of an economic and statistical character authorized by the Board and shall supervise the work of the Division of Research and Statistics and the preparation and publication of the Federal Reserve Bulletin. This Committee shall also have supervision of the statistical and publication work of the Federal Reserve Banks.

The Director of the Division of Research and Statistics shall serve as Secretary of this Committee, or in his absence the Assistant Director shall so serve.

Sec. 4. Salaries and Expenditures of Federal Reserve Banks.

To this Committee shall be assigned all recommendations from Federal Reserve Banks for changes of salaries and other expenditures. This Committee shall make reports with respect to charge-offs and franchise tax of Federal Reserve Banks.

The Secretary of the Board shall serve as Secretary of this Committee.

Sec. 5. District Committees.

To each Federal Reserve Bank and District shall be assigned a Committee of not less than two members of the Federal Reserve Board. It shall be the duty of each Committee to keep itself informed by correspondence and visit of the affairs of the Bank and the condition of the District, and make investigation and report on all questions appertaining to the operation of any Federal Reserve Bank or the condition of any Federal Reserve District that may be referred to it by the Board. These Committees shall also aid the Committee on Salaries and Expenditures with information regarding personnel of the respective Federal Reserve Banks of which they have charge. These Committees shall also make recommendations to the Board for the appointment of Directors at Federal Reserve Banks and Branches.

Article VIII.

The Fiscal Agent and Deputy Fiscal Agent.

Sec. 1. The Board shall appoint a Fiscal Agent and a Deputy Fiscal Agent. The duty of the Fiscal Agent shall be to collect and deposit all moneys receivable by the Board with the Treasurer of the United States, to be placed in a special fund established on the books of the Treasurer for the Federal Reserve Board. The Deputy Fiscal Agent shall perform the duties of the Fiscal Agent during his absence or disability.

Sec. 2. The Fiscal Agent and Deputy Fiscal Agent shall each execute a separate bond with surety satisfactory to the Board.

Sec. 3. Payments of expenses and other disbursements of the Board shall be made by the Fiscal Agent upon proper vouchers out of moneys advanced to him by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Section 5 of this Article. In the absence of the Fiscal Agent payment of expenses and other disbursements shall be made by the Deputy Fiscal Agent upon proper vouchers out of moneys advanced to the Fiscal Agent by requisition and warrant out of the special fund and placed to his official credit with the Treasurer of the United States as provided by Sections 5 and 6 of this article.

Sec. 4. The Fiscal Agent shall prepare a quarterly account in such form as shall be approved by the Comptroller General of the United States and, after approval by the Governor, such quarterly account shall be submitted to the General Accounting Office. Such account shall cover payments of expenses and other disbursements made by both the Fiscal Agent and the Deputy Fiscal Agent.

Sec. 5. The Governor shall, when necessary, make requisition on the Treasurer of the United States for the advance of such sums to the Fiscal Agent as may be necessary from the Federal Reserve Board fund.

Sec. 6. The Deputy Fiscal Agent in making disbursements of the Board upon proper vouchers out of the moneys advanced to the Fiscal Agent shall sign against funds to the official credit of the Fiscal Agent with the Treasurer of the United States in the name of the Fiscal Agent by himself as Deputy Fiscal Agent.

Article IX.

Gold Settlement Fund.

and

Federal Reserve Agents' Fund.

All funds deposited by or for account of the respective Federal Reserve Agents in the Federal Reserve Agents' fund of the Federal Reserve Board and all funds deposited by or for account of the respective Federal Reserve Banks in the Gold Settlement Fund of the Federal Reserve Board shall be held on deposit with the Treasurer of the United States and shall be subject to withdrawal only by check of the Federal Reserve Board signed by the Secretary or an Assistant Secretary and countersigned by the Governor or acting executive officer of the Board.

Article X.

Requisition for Delivery.

of

Federal Reserve Notes

Requisitions upon the Comptroller of the Currency for the delivery of Federal Reserve notes to the respective Federal Reserve Agents shall be made by the Secretary or Assistant Secretary in response only to requests made by the Federal Reserve Agents to the Board for such notes. The Secretary or Assistant Secretary shall submit daily for approval to the Governor or acting executive officer of the Board a schedule showing the amount of each denomination of Federal Reserve Notes requisitioned by him for the account of each Federal Reserve Agent.

Article Xl.

The Seal.

The following is an impression of the seal adopted by the Board.

SEAL.

Article Xll.

Counsel.

Sec. 1. The Board shall appoint a General Counsel whose duty it shall be to advise with the Board, or any member thereof, as to such legal questions as may arise in the conduct of its business; to prepare, at the Board's request opinions, regulations, rulings, forms and other legal papers and to perform generally such legal services as he may be called upon by the Board to perform.

Sec. 2. Subject to the direction of the Governor, the General Counsel shall have authority to correspond directly with the Counsel of the various Federal Reserve Banks and to request their opinions as to the interpretation of the local laws of the States included in their respective Federal Reserve Districts. Copies of all such correspondence shall be furnished to the Board for its information.

Sec. 3. Whenever it may be deemed advisable, the Board may appoint one or more Associate or Assistant Counsel, or one or more Assistants to Counsel. The duty of such Associate or Assistant Counsel shall be to assist the General Counsel in the performance of his duties and to perform the duty of the General Counsel in his absence. The duty of such Assistant to Counsel or Assistants to Counsel shall be to assist the General Counsel in the performance of his duties.

Sec. 4. The Board may appoint from time to time Consulting Counsel, who may be attorneys at law engaged in outside practice.

Article Xlll.

Meetings.

Sec. 1. Five members of the Board shall constitute a quorum for the transaction of business.

Sec. 2. Stated meetings of the Board shall be held on such days of the week and at such hours as the Board by a majority vote may fix from time to time. One meeting day each week shall be set apart for consideration of the following matters, advance notice of not less than two days being sent to members of important questions to be taken up at the meeting:

Discount and open market matters;
Approval of expenditures and salaries;
Establishment of Federal Reserve Branches, Agencies, Currency Stations;
Permission for establishment of member bank branches;
Amendment of Board's rules and regulations;
New policies or changes of policy;
Such other major matters as may be reserved for consideration at the weekly meeting.

Sec. 3. Special meetings of the Board may be called by the Chairman or Governor or upon the written request of three members of the Board.

Sec. 4. At all meetings of the Board the following shall be the order of business:

(1) Reading or inspection of the Minutes of the last regular meeting and Minutes of meetings of the Executive Committee.
(2) Report of the Governor.
(3) Report of the Secretary.
(4) Reports of the committees or members on assigned business.
(5) Unfinished business.
(6) New business.

Sec. 5. No vote shall be taken or motion made by the Board at a meeting or conference when others than the members of the Board and its Secretarial staff are present.

Article XlV.

Absences.

Sec. 1. Absences of appointive members of the Board shall as far as practicable be arranged so as not to interfere with the expeditious conduct of the Board's business in Washington.

Article XV.

Information and Publication.

Sec. 1. All persons employed by the Board shall keep inviolate its business, affairs, and concerns, and shall not disclose or divulge the same to any unauthorized person whomsoever, and any employee who shall give information contrary to this by-law shall be liable to immediate dismissal. Except upon vote of the Board, no one other than a Member of the Board, or the Secretary, Assistant Secretaries, Assistant to the Governor, and General Counsel, shall be permitted to inspect any of the Board's minutes.

Sec. 2. No statements shall be made to the press expressive of the Board's policy or descriptive of its action except as authorized and approved by the Board. Such statements shall be issued only in written form and when authorized and approved they shall be issued through the office of the Governor or such other officer or member of the Board as may be specifically designated. While each member of the Board must determine for himself the propriety or necessity of expressing publicly his individual opinion on any question, members shall not quote publicly the opinion of other members on matters which have not formally been passed upon by the Board.

Sec. 3. There shall be published monthly, a bulletin to be known as "The Federal Reserve Bulletin", which shall be the official periodical organ or publication of the Federal Reserve Board.

Sec. 4. No resolutions of a personal character, except upon the death of a member of the Federal Reserve Board while serving as such, shall appear in any publication of the Federal Reserve Board.

Article XVI.

Amendments.

These by-laws may be amended at any regular meeting of the Board by a majority vote of the entire Board, provided that a copy of such amendments shall have been delivered to each member at least seven days prior to such meeting.

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COPY

FEDERAL RESERVE BANK OF NEW YORK

October 10, 1928.

Dear Governor Young:

We have been keeping current records of the demand for Reserve Bank credit this autumn, and of the manner in which that demand has been met. These records seem to indicate that the policy of supplying autumn credit requirements through bill purchases has so far been entirely successful.

You will recall a tabulation which we sent you some time ago showing the increase over August in the daily average amount of Reserve Bank credit in use, before and after adjustment for changes in the gold stock, and also the amount supplied by bill purchases and the amount supplied through discounts and securities, in each of the last four months of the past six years. A revised copy of this tabulation is enclosed, on which have been entered opposite the six year average, the figures for September 1928 and for the first week of October.

You will note that the average amount of Reserve Bank credit needed in September was practically identical with the average for the past six years, but that, even without a reduction in our buying rates, the amount of bills we acquired was 50 per cent larger. Of the remaining increase in Reserve Bank credit, a considerable part took the form of increased holdings of U.S. securities, largely explained by the Treasury overdrafts around the 15th; so that the average amount of member bank borrowing at the Reserve Banks for the month of September was practically the same as in August. This probably was an important factor in preventing a further rise in commercial borrowing rates during September, and the heavy buying of bills undoubtedly was mainly responsible for keeping bill rates low compared with other money rates, and made possible a much larger volume of financing through the bill market than would have been the case otherwise.

During the first week of October the increase over August in Reserve Bank credit outstanding has been somewhat below the six-year average, and the increase in bill holdings has reached such large proportions as to supply almost the entire amount. The security holdings of the System are somewhat above the August average, and discounts are slightly smaller.

It appears probable that we shall continue to have a large volume of bills offered to us during October and November and that our bill holdings may increase faster than the demand for Reserve Bank credit. If that is the case, discounts for member banks will tend to decline below the volume of August, and money rates are likely to be easier than in recent weeks. It would not be surprising if the principal effect of this situation were to appear in the call money market.

Very truly yours,

J. H. Case, Deputy Governor.

Hon. Roy A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

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COPY

INCREASE IN RESERVE BANK CREDIT

REQUIRED TO FINANCE AUTUMN REQUIREMENTS

Revised on basis of average daily gold stock figures recently issued by Federal Reserve Board

(Monthly averages of daily figures; increases over August, in millions of dollars)

	Actual Increase in F.R. Credit over August Average	Change in Gold Stock	Change in F.R. Credit if there had been no Change in Gold.	Amount F.R. Credit Supplied Thru Bills Purchased	Amount F.R. Credit Supplied thru Discounts & Securities
1922					
September	+ 60	+ 22	+ 82	+ 51	+ 31
October	+ 132	+ 38	+ 170	+ 93	+ 77
November	+ 157	+ 55	+ 212	+ 101	+ 111
December	+ 251	+ 75	+ 326	+ 102	+ 224
1923					
September	+ 45	+ 26	+ 71	− 3	+ 74
October	+ 73	+ 58	+ 131	+ 7	+ 124
November	+ 70	+ 85	+ 155	+ 85	+ 70
December	+ 122	+ 129	+ 251	+ 145	+ 106
1924					
September	+ 94	− 1	+ 93	+ 62	+ 31
October	+ 169	− 10	+ 159	+ 150	+ 9
November	+ 248	+ 1	+ 249	+ 236	+ 11
December	+ 384	− 9	+ 375	+ 329	+ 46
1925					
September	+ 72	+ 12	+ 84	+ 18	+ 66
October	+ 164	+ 17	+ 181	+ 90	+ 91
November	+ 197	+ 33	+ 230	+ 146	+ 84
December	+ 337	+ 23	+ 360	+ 162	+ 198
1926					
September	+ 67	+ 4	+ 71	+ 19	+ 52
October	+ 111	+ 5	+ 116	+ 49	+ 67
November	+ 112	+ 10	+ 122	+ 102	+ 20
December	+ 223	+ 14	+ 237	+ 140	+ 97
1927					
September	+ 117	− 1	+ 116	+ 43	+ 73
October	+ 191	− 19	+ 172	+ 109	+ 63
November	+ 309	− 93	+ 214	+ 163	+ 51
December	+ 491	− 169	+ 322	+ 205	+ 117
Average 1922-1927. Sept.	+ 76	+ 10	+ 86	+ 32	+ 54
Oct.	+ 140	+ 15	+ 155	+ 83	+ 72
Nov.	+ 182	+ 15	+ 197	+ 139	+ 58
Dec.	+ 301	+ 11	+ 312	+ 181	+ 131
1928					
September	+ 85	+ 7	+ 92	+ 48	+ 44
October 1-8	+ 135	0	+ 135	+ 136	− 1

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Memorandum on Credit Conditions Presented by
Governor Harding to the Federal Reserve Board
August 13, 1928.

(Taken by C.S.H. from Board's records)

States, among other things, that market for government securities has weakened further and the July issue is nearly two points under par; that stock prices have moved irregularly; average prices (New York Tribune, 100 stocks) are about 8 points or 5% under the year's high point; trading is reduced in volume; bank stocks continue weak; banks are showing concern about the credit situation and applying pressure to reduce borrowing at the reserve banks; New York City banks have sold 118 millions of Government securities since July 11th.

European exchanges have weakened further and those of England, France, Italy, and Holland are only slightly above the points at which gold will move in this country, unless prevented by higher rates abroad or sale of their balances here to support the exchanges.

There is no evidence of restriction of business, though profits are reported small in some lines.

Building and automobile production are particularly large.

There appears to be an ample supply of credit for business at moderate rates.

There has been a sharp decline in prices of certain agricultural products, accompanying estimates of larger crops.

As a result it seems probable that the farm income will be reduced from earlier estimates and possibly less than last year.

These various developments raise the question as to whether and when a change of policy is desirable.

<u>Earlier Periods for Comparison.</u>

The three periods for comparison are 1923 and 1925, when the System sold securities heavily in the spring simultaneous with rate increases ,and 1926 when readjustment followed rate increases in November, 1925 and January 1926.

The 1925 readjustment was so temporary as hardly to show in the figures, but in 1923 and 1926 bills discounted amounting to between 500 and 700 million, and discount rates at 4½% and 4% respectively, appeared to be

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sufficient to check the expansion of credit, though in neither case was there any substantial liquidation of the total volume of credit.

What Would be a Normal Status?

The methods to be employed toward some relaxation in credit, when that becomes possible, depend upon the ends to be sought - especially what might be considered in the future to be a proper average of member bank borrowings and a normal level of rates.

The comparative ineffectiveness of rate increases this spring at a time when member banks owed the reserve banks about 500 millions, raises the question as to the relation between open market rates and Federal reserve discount rates, and this raises the further question whether it is possible to bring about a different relation between Federal reserve rates and the market.

Experience appears to show that large indebtedness forces market rates high relative to the discount rate, and that the most feasible method of securing a somewhat more effective adjustment of market and discount rates would be to reduce the amount of member bank indebtedness while leaving rates unchanged.

Apart from any attempt to bring about a somewhat different relation between discount rates and market rates, there are some reasons for believing that the present amount of member bank borrowing is too large to be continued over an extended period without some unfortunate results:

1. Almost regardless of the discount rate, it keeps severe pressure on the credit situation.

2. By keeping open market rates high relative to the discount rate, it tends to make the cost of financing through acceptances higher than direct borrowing at banks and tends to dry up the bill market.

3. By keeping open market rates high relative to the discount rate, it makes borrowing profitable and creates difficulty in dealing with borrowing banks. "Good" banks work out of debt taking losses; less cooperative banks use the Reserve System for profit.

Proceedings before the Board, August 13, 1928.

Acting Chairman of the Committee, Harrison, presented the above memorandum.

After discussing the proposition of preferential rates on seasonal crop marketing paper and bankers acceptances and trade bills, respectively, he stated that the Committee, with the exception of Governor Harding, felt that preferential rates on special classes of paper would probably not accomplish what is desired and that the Committee feels that the question whether the season's crops can be moved expeditiously and reasonably involves the bigger question of the whole credit structure and will have to be dealt with through open market operations rather than through preferential rates on commodity paper.

He expressed the opinion of the Committee that to reduce the bill rates would undoubtedly result inthe dumping of a vast volume of acceptances on the Federal reserve banks, which though it might have the effect of easing the credit situation, would undo the work of many years in developing a bill market.

He then presented the report of the Committee as follows:

> "The policy recommended by the committee in most of its meetings since January, has been to check or prevent unduly rapid or unnecessary increase in the volume of bank credit. While the total volume of loans and investments of reporting member banks is now considerably above what it was at the low point in February, nevertheless, it is approximately 300 millions below the high point of May, and there is evidence that member banks are making continued efforts to reduce their borrowings at Federal reserve banks.
>
> "The Committee does not believe that conditions necessitate an immediate purchase of securities by the System. It is of the opinion, however, that as pointed out at its last meeting, an extended period of high money rates and heavy pressure resulting from large borrowings by member banks would not be wholesome and that there are some indications that with the approaching fall demands for credit it may soon be possible or necessary to take steps looking toward the reduction, or at least the avoidance of the necessity of any substantial increase in the volume of member bank discounts.

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"With these facts in view and realizing that if and when the time arrives undue delay may be hurtful to the situation, the Committee recommends that it should be the policy of the System to purchase securities whenever that should become necessary to avoid undue credit stringency.

"The Committee would expect to take such steps as may be needed to carry out this policy, if approved, believing, however, that it might be advisable to have another meeting of the Committee to review the effect of any steps that may be taken in pursuance of this policy."

A discussion of the report ensued, during which Mr. Harrison stressed the fact that the Committee's recommendation for the purchase of securities is intended to cover only an emergency situation and that securities would be purchased only as a last resort if a dangerously tight money situation should arise despite efforts to prevent such a situation through purchases of acceptances, exchange operations and otherwise.

Upon inquiry by the Governor, the other members of the Committee confirmed Mr. Harrison's statement that their recommendation contemplated purchases of Government securities only as a last resort in an emergency situation.

July [illegible] 1935.

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Mr. McClelland writes C.S.H. under date of August 16, 1928:

"There is enclosed herewith copy of a letter which the Board addressed to Mr. Harrison following the meeting this morning.

"Five members were present and three voted in the affirmative; Mr. Miller and Mr. James being unalterably opposed to any authorization for the purchase of Government securities. Word to the same effect had been received from Mr. Cunningham and was submitted to the Board along with the telegram which you sent to Mr. Platt yesterday."

Letter of Governor Young to Mr. Harrison, August 16, 1928:

"Dear Mr. Harrison:

The Board has reviewed carefully the report of the Open Market Investment Committee and its recommendations of August 13, and has also considered the verbal discussion which took place during the meeting, and it is in agreement with the Committee that the seasonal requirements of credit will probably develop a strain upon the future credit situation which may react unfavorably upon commerce and industry, and that if such a situation should develop, the System should take some action to relieve the strain.

The Board would not care to agree to the purchase of Government securities, except as a last resort. We understand from the discussion had with your committee that you favor easing through the bill market, if possible, and through the Government security market only if unavoidable. With this understanding, the Board approves the purchase of Government securities by the committee but limits the amount to 100 million dollars. If a situation should develop which will require reconsideration, the Board will be glad to meet the committee at any time for that purpose.

(Signed) R. A. Young, Governor.

George L. Harrison, Acting Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York, N. Y.

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July 29, 1935.

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Preliminary Memorandum for the Open Market Investment Committee,
Nov. 14, 1928:

Gives review since the fall of 1927.

The purchase of securities was discontinued in November, 1927, although the gold movement continued.

In January, 1928, the reserve banks began selling securities.

The sales of securities were followed in February by a general advance in discount rates.

Reporting member bank loans and investments decreased moderately in January and February.

A new outburst of speculation on a large scale than ever before occurred in March and April, which led to a renewed and moré rapid increase in bank credit.

Within ten weeks the loans and investments of reporting member banks increased a billion dollars.

The sale of securities was resumed in the latter part of March and continued more rapidly in April, although the market for Governments was so weak that it was difficult to sell such securities.

As securities were sold open market money rates advanced.

As a consequence, funds were attracted from other districts, and there was increased discounting at the reserve banks in those districts.

This flow of funds to New York largely offset the effect of security sales in New York so that the indebtedness of the New York City banks showed for some time no material increase.

The expansion of credit was not halted until the second advance in the reserve bank discount rates in the latter part of April.

Except for a temporary rapid increase early in July which was followed by a further rise in discount rates in all but four western districts, the loans and investments of New York City banks tended to decline from May to August, and in other districts the expansion was checked.

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Speaks of increase in brokers loans for account of others.

They represented a potential expansion of bank credit because the banks would be obliged to take over loans called suddenly by these other leaders.

Autumn Credit Requirements.

The steady rise in money rates which followed the gold outflow and reserve bank sales of securities and rate advances, constituted a danger to the business of the country if it proceeded much further.

Gives comparison of rates between August 1927 and August 1928.

Although the largest advances had occurred in rates on "street loans" the advances in commercial rates had been substantial and the tendency was toward still higher rates.

To prevent money conditions from becoming more stringent during the season of autumn trade and crop moving, the purchase of Government securities was considered but it was felt that such action would be followed immediately by a new outburst of speculative demand for additional credit which might absorb the credit extended for business uses.

It was finally decided that the policy of maintaining bill rates at their current levels and purchasing freely bills offered by banks and dealers would probably put into the market sufficient Federal reserve funds to meet autumn credit needs, thus preventing a further rise in commercial money rates.

Effects of 1928 Bill Purchases.

Due to an extraordinarily large volume of bills in the market and the presence of a few other buyers of bills because of the low level of acceptance rates relative to other open market money rates, the volume of acceptances offered to the reserve banks for purchase has been much larger than in any previous year, and has exceeded the seasonal increase in the demand for Federal reserve credit, thus tending to cause a reduction of about 100 millions in member bank indebtedness and some easing in money rates at a time when the demand for credit for speculative use is as strong as ever before.

The rest is not material to this question.

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November 15, 1928.

Confidential.

REPORT OF THE OPEN MARKET INVESTMENT COMMITTEE

The Committee has reviewed the preliminary memorandum submitted by the Chairman in relation to credit and money market conditions of the past year. It has given special consideration to the development of conditions since the last report of the Committee on August 13th and to the effect of Federal reserve policies on the volume of credit and the rates for money during the period of credit movement whose peak has probably now passed. The Committee feels that the policy of the System has been substantially effective in providing credit for seasonal agricultural and commercial purposes at relatively low rates and without any abnormal increase in the total volume of member bank loans and investments for this period of the year.

The Committee is of the opinion, however, that it should still be the policy of the System, if possible, to prevent any unduly rapid or unnecessary further increases in the total volume of bank credit, although in fact the total loans and investments of all reporting member banks are now slightly below the high point of May in spite of the usual Fall increase in the demand for credit for crop movement purposes. But we are approaching the usual seasonal demand for currency for holiday purposes. This will result in increased borrowings from the Federal reserve banks except to the extent that further gold imports offset the demand for Federal reserve accommodation. It is not possible to estimate the extent of the present gold movement or its ultimate effect upon credit conditions and money rates. Already there

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is some evidence of easier money rates contributed to partly by the inflow of gold and partly by the large increase in the bill portfolio of the Federal reserve banks, each of which has caused a reduction of member bank discounts in the New York district. Some of this increase in the bill portfolio is due to the sale of bills by foreign banks to support their exchanges, which have felt the pressure of high rates in this country.

But while these conditions appear to have an easier tendency at the moment, nevertheless the uncertainty of the gold movement, the approaching demand for currency, and the usual demand for Federal reserve credit during December suggest to the Committee that the System should still be prepared in the event of an emergency to prevent any undue stringency of credit during this period.

With all these facts in mind, the Committee renews the recommendation contained in its report of August 13th that it should be the policy of the System to purchase Government securities if and when it might become necessary to avoid an acute stringency.

The Committee would expect to take such steps as may be needed to carry out this policy, if approved, with the understanding however that it would be advisable to have another meeting of the Committee in the event that any substantial change in conditions makes that necessary.
