The Papers of Charles Hamlin (mss24661)

362_08_001-	Hamlin, Charles S., Scrap Book – Volume 197, FRBoard Members

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FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 31, 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 197 of Mr. Hamlin's scrap book and placed in the Board's files:

<u>VOLUME 197</u>

<u>Page 69</u>
Second preliminary draft - October 31, 1929 - of Regulation re Open Market Operations.

<u>Page 137</u>
Memo prepared by Mr. Goldenweiser for the use of Senator Glass in connection with the Directors' meeting of the F.R. Bank of Boston, Friday, November 8, 1929.

<u>Page 139</u>
Confidential - Remarks to the Federal Reserve Board made on October 25, 1929, by E. A. Goldenweiser.

<u>Page 143</u>
Earnings & Expenses of Federal Reserve Banks, October 1929.

<u>Page 144</u>
Memo to Gov. Young from Mr. Smead re Amount of U.S. securities that can be purchased by Federal Reserve Banks.

<u>Page 150</u>
Resolution Adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting Thursday, November 7, 1929.

<u>Page 151</u>
Confidential Report of Open Market Committee.

<u>Page 152</u>
Resolution Presented by Mr. Hamlin to Board on November 12, 1929.

<u>Page 153</u>
Letter to Chairman Harrison of Open Market Inv. Committee from Gov. Young re report of -

James draft
withdrawn Nov 5. 29 in view of Gov Young's draft submitted to Exec Com.
Sec by

(CONFIDENTIAL- Second preliminary draft - October 31, 1929)

Regulation ____________. Series of 1929.

OPEN MARKET OPERATIONS.

P69

Section I - Definitions.

(a) Open Market Investments - The term "open market investments" shall include all of the following purchased on the open market by, or for the account of, Federal reserve banks:

(1) Bankers' acceptances, bills of exchange and other bills receivable;

(2) Bonds, notes, certificates of indebtedness and Treasury bills of the United States;

(3) Bills, notes, revenue bonds and warrants of any State, county, district, political subdivision or municipality in the continental United States;

(4) Acceptances, debentures and other such obligations of Federal intermediate credit banks or national agricultural credit corporations; and

(5) Farm loan bonds.

(b) Aggregate Open Market Investments - The term "aggregate open market investments" shall mean the aggregate amount of all open market investments owned by, or held for the account of, all of the Federal reserve banks whether purchased individually by such banks, purchased by the Executive Committee for the account of such Federal reserve banks, or acquired in any other manner.

Section II - General Principles

The time, manner, character and volume of all purchases and sales of open market investments shall be governed primarily with a view of accommodating commerce and business and with regard to their effect upon the general credit situation.

Section III - Limitations

Except as hereinafter provided the amount of aggregate open market investments shall conform to limitations prescribed from time to time by the Federal Reserve Board. The Board will not prescribe a single sum as the limitation on the amount of aggregate open market investments, but will provide that the amount shall not be less than a certain sum nor in excess of a certain other sum, allowing a reasonable latitude in view of the circumstances existing from time to time.

Section IV - Open Market Committee

(a) Organization - Hereafter the Open Market Committee shall consist of the governors of the twelve Federal reserve banks. In the absence of any governor from a meeting of the Committee, an alternate appointed by the directors of his bank may serve as a member of the Committee. The Committee shall select its own Chairman.

(b) Meetings - Meetings of the Open Market Committee shall be subject to the call of the Federal Reserve Board, the Open Market Committee or its Executive Committee, and shall be held in Washington or in such other place as may be arranged by agreement between the Open Market Committee and the Federal Reserve Board.

(c) Functions - It shall be the duty of the Open Market Committee, subject to the review and determination of the Federal Reserve Board, to formulate from time to time an open market policy for the Federal Reserve System as a whole and, when deemed necessary or advisable, to recommend changes in the amount of aggregate open market investments, in accordance with the terms of this regulation. All policies formulated and all changes recommended by the Open Market Committee shall be submitted to the Federal Reserve Board for approval and shall not take effect until they have been approved by the Federal Reserve Board.

While the duty of recommending changes in the amount of aggregate open market investments shall rest primarily with the Open Market Committee, the directors of any Federal reserve bank may recommend to the Federal Reserve Board changes in such amount at any time; and the Federal Reserve Board reserves the right to change such amount on its own initiative.

Section V - Executive Committee.

(a) Organization- The Open Market Committee shall select from its own membership an Executive Committee consisting of five members and shall appoint the Chairman thereof.

(b) Functions - It shall be the duty of the Executive Committee:

(1) To execute purchases and sales of open market investments, in accordance with policies approved from time to time by the Federal Reserve Board;

(2) To maintain a pool of open market investments, participations in which shall be allotted to various Federal reserve banks desiring to participate in such pool;

(3) To maintain the amount of aggregate open market investments within the limitations prescribed from time to time by the Federal Reserve Board; and

(4) To allocate the aggregate open market investments among all Federal reserve banks on an equitable basis and to adjust such allocation from time to time to meet the changing needs of the respective Federal reserve banks. Such allocation shall be made with a view primarily, of (a) enabling each Federal reserve bank to maintain a suitable reserve position, and (b) equalizing so far as practicable the net earnings of the various Federal reserve banks; and shall be subject to change by the

Federal Reserve Board, in its discretion, at the request of any Federal reserve bank.

(c) Purchases and Sales for Treasury - Acting on behalf of all Federal reserve banks participating in the pool, the Executive Committee may make temporary purchases and sales of United States bonds, notes, certificates of indebtedness and Treasury bills for the accommodation or account of the Treasury of the United States in amounts requested by the Treasury for periods not in excess of fifteen days, without regard to the limitations on the amount of aggregate open market investments.

Section VI - Individual Purchases of Open Market Investments.

Except with the permission of the Federal Reserve Board, no Federal reserve bank shall purchase or sell any open market investment for its own account independently of the Executive Committee; provided, that this prohibition shall not apply to the purchase or sale by an individual Federal reserve bank of:

(1) Bills of exchange and bankers' acceptances arising out of transactions in its own district, or

(2) Other investments made in emergencies to accommodate specific member banks.

Whenever an individual Federal reserve bank purchases or sells open market investments for its own account, the transaction shall be reported promptly to the Federal Reserve Board and to the Executive Committee; and it shall be the duty of the Executive Committee to make such adjustments in the pool of open market investments and in the allocation thereof as may be necessary;

(1) To maintain the aggregate open market investments within the limitations previously approved by the Federal Reserve Board; and

869

(2) To maintain the participation of each individual Federal reserve bank in the aggregate open market investments in accordance with the allocation thereof made by the Executive Committee.

Section VII - Dealings in Gold

Except after applying for and receiving the approval of the Federal Reserve Board, no Federal reserve bank shall engage in, or make definite commitments for, transactions with foreign governments, foreign banks or foreign bankers involving the purchase, sale, exchange, loan, pledge, or earmarking of gold, gold coin or gold certificates.

How about credits?

Sec Bd

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B 137

(Memorandum prepared, by Dr. Goldenweiser for the use of Senator Glass in connection with the Directors meeting of the F.R. Bank of Boston, Friday, November 8, 1929)

November 1, 1929.

For the second time in its relatively short history the Federal Reserve System has piloted the financial community through a crisis of major importance and emerged with enhanced prestige. Once again the country looks to the impregnable position of the Federal Reserve banks as its strongest guarantee of financial stability. Throughout the recent collapse of inflated security values money was freely available to trade and industry despite a demand for credit so large that member banks were forced to increase their reserve balances by $275,000,000 in one week. This constitutes an increase in a single week of more than 10 per cent in the reserves on which the entire volume of member bank credit rests. It could not have been supplied under the old banking system without a money panic.

The first crisis weathered by the Federal Reserve System was not anticipated when the Act was originally framed. We were not in a position to foresee that the great new system of credit reservoirs would first be called into use in the midst of a world catastrophe which would ultimately bring about the suspension - - or carry down to destruction -- practically every other monetary system in the world. That it did not also engulf the Federal Reserve System was not due solely to the relatively favored position of our economic system at that time, but reflected in addition the painstaking research in this country extending over a quarter of a century prior to the passage of the Federal Reserve Act, the meticulous care with which the Act was drawn, and the management with which its provisions were continuously made effective.

This second crisis from which the Federal Reserve System is even now emerging has been more typical of what its sponsors had in mind when the Act was framed. One of the outstanding evils of the old monetary system which we desired to prevent was the close dependence of American industry on the mood, temper, and extravagances of the speculative community. A direct affiliation of industry with the security markets is of course inevitable and unavoidable, since it is in the security markets that the going price of capital is made and through the security markets that much of our capital is marketed. We did, however, wish to avoid the regular recurrent sequence of speculative excess leading to financial panics which seemed to be part of the order of nature in former days. The virtual certainty that a speculative orgy would celebrate every forward step of American industry and would drag with it in its collapse the very prosperity on which it was based, constituted a vicious circle which the Federal Reserve System was designed to break. The extent of its fulfillment of this desire is apparent today. Despite the collapse of a speculative movement of huge proportions, the business elements of this country look to the future undismayed. Readjustments may be before us, as indeed they always are. The return to reality of inflated hopes may be reflected in a

3137

diminished demand for luxuries. The real losses of small traders whose credulity exceeded their knowledge will undoubtedly impose privation on thousands of our citizens. These events are deplorable but could not in the conditions of the time have been avoided. Their effects, however, will be largely confined to themselves. For nearly two years the Federal reserve system has pursued a firm policy against further increase of credit extended to the security markets, and today business remains sound with credit freely available to all trade and industry where there is a genuine need for credit and sound assets on which to request it. For once, the effects of a speculative collapse will be confined largely to those who took the risks and sought to participate in the gains.

CONFIDENTIAL

November 5, 1929

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P139

THE PROBLEM BEFORE THE FEDERAL RESERVE SYSTEM: A PERSONAL VIEW

Remarks to the Federal Reserve Board made on October 25, 1929 by E. A. Goldenweiser

This talk was given to the Board in response to a resolution requesting me to make a statement of the credit problem now before the Federal reserve system as I see it. The outline of this talk was prepared prior to October 22, but the talk was postponed and actually delivered on October 25. In writing out these remarks at this time, November 2, I have only an outline and must depend on my memory. The time that has elapsed since then has been so full of unusual events that my statement may be influenced by things that happened after the talk was delivered.

Purpose of Federal reserve system

My general conception of the purposes of the Federal reserve system is a conventional one, namely, that it is supposed to serve trade and industry, or in the phrase used in the law, to "accommodate commerce and business." It is not the purpose of the Federal reserve system to stabilize prices, interest rates, or fluctuations in the volume of business. The business of the Federal reserve system is to adapt itself to the requirements of trade and industry and whatever effect it may have in stabilizing business conditions would arise from the fact that the maintenance of a sound banking condition would tend to keep business sound, and, therefore, relatively stable.

The problem before the Federal reserve system is a double one, this analysis also being along conventional lines. There is the foreign phase and the domestic phase of the problem. I should like to speak of the foreign situation first, not because it is more important, but because it is less important, and I want to focus attention on the more important domestic phase. Another reason for talking of the foreign situation first is that it forms the background against which Federal reserve policy must operate.

VOLUME 197
PAGE 139

Foreign demand for capital

Briefly speaking, in the immediate future the foreign situation will represent a more or less continuous pull on the money market in the United States. The world is suffering from a shortage of capital arising largely from the destruction of capital during the war and during the period of terrific inflation and deflation which followed the war. In most of the countries of the world there is a shortage of capital goods and of working capital and in view of this shortage, which it will take a long time to make up, we may look forward to firm money rates throughout the world for a considerable period of time. The outside world will bid for money and will bid up money rates, and the United States will feel the effects of this bidding. The foreign countries will continue to need gold and their central bank rates will be adjusted to the protection of their existing gold reserves, if not for the purpose of attracting additional gold. These developments are predicated upon the continuance of the gold standard with the freedom of movement of funds from country to country. Where the standard is not operating in fact, the situation is different. Thus in Canada in recent months gold has not moved, notwithstanding a low rate of exchange, because there has been an agreement among Canadian banks to refrain from shipping gold and to charge sufficient commissions to American banks to prevent them from shipping gold. In these circumstances Canadian money rates could remain out of tune with world levels. France also has taxes and other policies that prevent the free movement of funds, so that she has been able to accumulate a large amount of gold throughout a period when her open market rates for money and her central bank discount rates have been the lowest in the world.

Our interest in the gold standard

In the immediate future the world is going to be working either on a gold standard and will have firm money practically everywhere, or it will abandon the gold standard in practice and have wide differences in money rates in different countries. It is to the interests of the United States for many reasons that the gold standard be maintained. The operation of the gold standard removes the hazards of violent fluctuations of exchange rates from our importers and exporters and improves the buying power of our foreign customers. It is also an important factor in establishing and preserving American leadership in the world of finance. This country has a large accumulation of gold with a great excess over its immediate requirements, and the suspension of the gold standard would greatly weaken its strategic position.

Control of credit growth

In the domestic situation the great problem before the Federal reserve system for some years past has been to see to it that the banking system of the country supplied all the credit that is needed for trade and industry, and at the same time to protect the country from unhealthy developments in any line. In order to be able to accomplish this purpose the system needs to have adequate control over the growth of bank credit. In order to insure this, it is necessary that no large growth of bank credit could occur without an increase in reserve requirements. That is precisely what happened during several years between 1922 and 1927, particularly in 1925 and 1926. In order to prevent this, a revision of our reserve requirements in the direction of equalizing the reserves against time and demand deposits appears to be necessary. It is also becoming of increasing importance to have the reserve requirements of banks that do not belong to the Federal reserve system be equivalent to the requirements for member banks. Whether this can be accomplished by Federal legislation or whether it would require cooperation of the forty-eight legislatures is a question, but the recent growth of consolidations and the tendency of big banks to leave the National system and in some cases the Federal reserve system makes it clear that in the future adequate control of credit growth may not be possible so long as the door remains open for any member bank to step out of the Federal reserve system and thereby free itself from its reserve requirements. If, on the contrary, reserves of cash in vault or on deposit with the Federal reserve banks be required in equal amount of all banks in the country, then it would be a matter of relative unimportance whether a bank belonged to the Federal reserve system or not. It could not in any case expand its operations without increasing the demand for reserve bank credit.

The Federal reserve system and the stock market

Federal reserve influence has been and must be exerted against unhealthy developments on a large scale in any line of activity; in business, in credit, in the stock market. The Federal reserve system cannot ignore the stock market. It must be recognized that the stock market has been the cause of the system's greatest anxiety for the past two years. Developments in the stock market have necessitated the system's firm money policy and this policy has been in large part responsible for high money rates. It is the insistent demand for credit at any price arising from the securities market that has influenced the system's policy and has indirectly caused the high cost of money. From this angle we are just as much interested in the loans made to brokers by corporations and others as we are in the loans made by the banks themselves. The important aspect in the growth of brokers loans by all lenders is the measurement which it affords of the demand for credit from the security market. That the reserve system is concerned with credit, regardless of who is supplying it at a given time, has been forcibly illustrated during the past week when loans for account of others were reduced by $2,000,000,000 and the New York banks were obliged to take over a large part of the load.

The Federal reserve system properly disclaims the role of arbiter of security values - it is not competent to judge these values and it is not a part of its business to do so. It does, however, have to watch the course of the stock market and observe whether the rise and fall in values is such as to indicate a state of feverish speculation. The course of brokers' loans and of rates for call money, and the fluctuations in the prices of securities are indications to the Federal reserve system of the character and tone of the business in the security market. The effect of the demand for funds by the security market on money rates is a matter of first importance not only to the United States but to the entire world. That violent changes in that market have reverberations throughout the economic and financial structure of the country has been demonstrated once more and with dramatic force during the past ten days. It is also true that about 60 per cent of bank credit is based on security values either in the form of the banks' investment holdings, or in loans on securities. A collapse in security values, therefore, has an effect on three-fifths of the assets of our banking system. The supervisory banking authority, therefore, cannot be indifferent to the course of security prices. A problem that the system is likely to encounter in the near future will be the effect of a drastic decline in security prices on the liquidity of some of the banks, particularly the smaller banks. The Federal reserve system may find itself under the necessity of nursing sick banks that have unsound investment accounts or frozen loans on securities as it was obliged to nurse a great many banks which had unliquid farm land assets after the collapse of 1920-1921. The fact that the investment account of banks is not as liquid as a secondary reserve should be has been demonstrated during the past year and one-half when the decline in the bond market has reduced the value of the banks' bond holdings. It was with great reluctance that the banks sold their investments. Notwithstanding the fact that they have sold a considerable amount, it is clear that in many instances they preferred to remain in debt at the reserve banks in the hope that the bond market would recover, rather than to take their losses and to liquidate their indebtedness. That represents a relatively frozen condition. A certain degree of freezing might occur also in the security loan account. These loans are in most cases perfectly sound, as the margins have been wide, but a collapse like the one that occurred recently may wipe out the widest margins; in that case the banks would not be free to sell out their customers, even though the collateral may not be sufficient to protect the banks. Freezing of bank assets in general represents in most cases primarily the effect of the customer relationship. Each individual security loan may be amply collateralled as far as anyone could tell, but in the aggregate the total volume of security loans contains an incalculable, but possibly large, proportion of frozen assets. A recognition of these facts would seem to be an essential of good Federal reserve policy.

Maintaining the anti-borrowing tradition

A part of the objective of the Federal reserve system as a matter of operating technique would seem to be to keep member bank indebtedness down to a moderate figure. To keep the banks in debt in the amount of $1,000,000,000 or more has the doubly bad effect of working against the salutory banking tradition against continuous indebtedness, and of keeping money unduly firm. It has been demonstrated conclusively that money rates are definitely responsive to the volume of member bank indebtedness. This country has built a credit structure on the basis of the $4,600,000,000 of gold which it had in the spring of 1927. This structure was developed during a period of easy money that lasted with interruptions from 1922 to the autumn of 1927. During that period there was a certain amount of inflation, due primarily to the imports of gold, but at times to Federal reserve policy, particularly in such a year as 1924, when security purchases were continued beyond the point of putting the New York City banks out of debt. It was in that year that a buyers' market in money developed and the banks were diligently searching for means of employing their funds and criticizing the Federal reserve system for interfering with the availability of investments. During that year the banks' investments showed the largest increase, and their security loans also rose rapidly. I think it is unquestionably true that we have a certain amount of inflation, although no inflation in commodity prices. It is an inflation of plant or of productive capacity, of certain real estate values, of security prices, and to borrow a phrase, of "expectations." The recent collapse of the stock market has demonstrated that there was and may still be an element of inflation in security prices.

The country's prosperity in recent years has been due in part to easy credit. It would seem to be the part of wisdom for the Federal reserve system not to deflate whatever inflation now exists, but to hold down the rate of further growth of credit, in order to allow the country to grow up to the existing volume. At the rate of progress which the United States shows from year to year that would not be a long process.

Effects of firm money policy

It would seem that Federal reserve policy has been entirely consistent with the principles outlined here. The firm money policy adopted by the Federal reserve system late in 1927 and continued until recently has been aimed at protecting the country from too rapid growth of credit, especially in the security markets. The firm policy has strengthened the position of member banks. By security sales, discount rate advances, and by discouraging member banks from borrowing from the Federal reserve banks and at the same time increasing their loans on securities, the system has contributed to the strength of the banking structure, which has been put to a severe test in recent days, and appears to have emerged in unimpaired condition. Firm money has also had the effect of strengthening the position of the reserve banks, with the consequence that they were able to meet the very heavy demands upon them during the past ten days without the least strain. I believe that it is also true that the firm money policy has moderated the exuberance of business and has prevented prosperity from turning into a boom. It has also been a factor in improving the technical position of the security market by making bankers and brokers more cautious in increasing margins, advancing minimum amounts of business, etc. The system's policy has been a factor, though not always a direct one, in these developments, and the wisdom of the policy has been forcibly demonstrated recently.

P 139

Immediate situation

It would seem at the present time that the Federal reserve system is nearer to the goal towards which it has been working than it has been at any time in the past two years. As I saw the situation on October 25 it was necessary for the system to be prepared to act promptly in case a panicky condition should develop, or in case there was a pronounced recession in business. At the same time the equilibrium was so delicately balanced that any movement in the direction of ease at that time might have revived what appeared to be the waning spirit of the speculators. Since that time there has been a change in the situation; the long expected break has come, and the speculative spirit is allayed, at least for the time being. The system rose to the occasion by buying securities and by reducing the bill rate and the discount rate.

The conclusion is forced upon me in looking over the course of Federal reserve policy during the past six or seven years that this policy is most effective when it is guided by relatively long time indicators, such as the course of business, the gold position, and the soundness of the credit structure. Just as hard cases make bad law in the courts, short-time difficulties may sometimes be an influence toward unwise Federal reserve policy. It is the solicitude of the Federal reserve system about temporary needs, seasonal and otherwise, that appears to have caused it to adopt easing policies at times when there was danger that ease would translate itself into new spurts of speculation.

At this point there followed a general discussion by the Board of immediate problems of policy before it.

P143 Sen Bk

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, OCTOBER 1929

St. 6381

Federal Reserve Bank	Month of October 1929									January - October 1929		
	Earnings from -					Current expenses		Current net earnings		Current net earnings	Dividends accrued	Available for reserves surplus and franchise tax*
	Dis-counted bills	Pur-chased bills	U. S. securi-ties	Other sources	Total	Exclusive of cost of F.R.Currency	Total	Amount	Ratio to paid-in capital			
									Per cent			
Boston	$261,991	$94,113	$11,047	$9,122	$376,273	$159,773	$186,811	$189,462	20.7	$2,733,406	$521,809	$2,173;447
New York	803,967	444,526	129,030	76,269	1,453,792	537,866	584,921	868,871	15.9	9,662,098	2,891,534	6,724,033
Philadelphia	337,093	74,812	61,719	5,442	479,066	159,949	170,356	308,710	22.0	3,084,246	773,117	2,242,011
Cleveland	413,151	162,499	87,311	23,438	686,399	207,353	222,408	463,991	35.0	3,190,037	753,719	2,371,437
Richmond	225,867	75,218	4,401	6,654	312,140	119,425	127,173	184,967	36.1	1,377,342	308,050	1,004,402
Atlanta	244,423	97,932	11,947	11,199	365,501	104,436	133,245	232,256	50.9	2,193,975	267,871	1,885,392
Chicago	513,816	205,890	86,967	51,125	857,798	310,775	343,222	514,576	30.5	4,546,451	970,314	3,482,092
St. Louis	230,881	141	24,532	2,224	257,778	112,638	120,411	137,367	31.0	1,567,589	266,548	986,633
Minneapolis	178,210	25,460	29,950	17,634	251,254	81,496	82,903	168,351	64.7	728,551	153,233	557,192
Kansas City	189,774	82,271	2,576	27,654	302,275	137,627	146,217	156,058	43.1	799,060	213,707	644,460
Dallas	135,355	62,715	36,158	4,169	238,397	108,839	110,638	127,759	33.5	891,345	221,930	638,479
San Francisco	369,476	167,308	37,229	5,120	579,133	187,169	189,376	389,757	40.3	2,241,600	556,032	1,640,631
TOTAL												
Oct. 1929	3,904,004	1,492,885	522,867	240,050	6,159,806	2,227,346	2,417,681	3,742,125	26.4			
Sept. 1929	4,200,206	963,969	553,715	186,719	5,904,609	2,188,350	2,345,136	3,559,473	26.0			
Oct. 1928	4,107;486	1,414,389	793,701	154,686	6,470,262	2,192,783	2,217,906	4,252,356	34.4			
Jan.-Oct. 1929	40,533,632	9,542,280	5,745,075	2,082,457	57,903,444	22,144,257	24,887,744	33,015,700	25.1	33,015,700	7,897,964	24,350,209
1928	30,462,658	9,390,307	9,129,697	1,420;393	50,403,055	21,700,882	22,402,702	28,000,353	24.0	28,000,353	6,992,313	19,136,487

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
NOVEMBER 11, 1929

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

VOLUME 197
PAGE 143

Mr Hamlin

November 11, 1929

Governor Young — Amount of U. S. Securities that can

Mr. Smead — be purchased by Federal reserve banks.

P144

In accordance with your verbal request we find that the amount of free gold held by the Federal reserve banks on Wednesday, November 6, 1929, i.e., the amount of gold in excess of that required as reserves against deposits and note circulation and as collateral against outstanding Federal reserve notes amounted to $1,041,000,000. Federal reserve banks could, therefore, without reducing the amount of Federal reserve notes held in their own vaults to take care of current requirements, purchase a maximum theoretical amount of $1,041,000,000 of U. S. securities paying for them in gold to be used for export or in Federal reserve notes for circulation purposes. The result would be substantially the same if the funds paid out in exchange for U. S. securities were used to pay off borrowings from the Federal reserve banks.

The amount of free gold, or the maximum theoretical amount of U. S. securities which could be purchased by each Federal reserve bank on November 6, without creating a deficiency in required reserves was as follows:

Boston	$56,000,000	Chicago	$164,000,000
New York	486,000,000	St. Louis	32,000,000
Philadelphia	61,000,000	Minneapolis	22,000,000
Cleveland	54,000,000	Kansas City	37,000,000
Richmond	37,000,000	Dallas	24,000,000
Atlanta	7,000,000	San Francisco	61,000,000
		Total	1,041,000,000

It will be noted from the above that the Atlanta bank has only $7,000,000 of free gold which would seem to be running pretty close to the minimum required to take care of day to day fluctuations in its reserves, notes, and deposits. If a reasonable minimum free gold balance were fixed for each Federal reserve bank it would probably cut down the amount of U. S. securities that Federal reserve banks could purchase without interfering with their day to day operations to around $600,000,000.

VOLUME 197
PAGE 144

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CONFIDENTIAL.

RESOLUTION ADOPTED BY THE BOARD OF DIRECTORS OF THE FEDERAL RESERVE BANK OF NEW YORK AT ITS MEETING THURSDAY AFTERNOON, NOV. 7, 1929.

It is the unanimous opinion of this board that, in the interest of maintaining business and employment, the policy of the Federal Reserve System and this bank for the coming weeks should be to keep a plentiful supply of money in the market through the purchase of bills, if available, and if not, then through the purchase of governments, in order that discounts of the Federal Reserve System may be reduced and at the proper time a further reduction of the discount rate effected, with the objective of securing lower interest rates for business throughout the country.

VOLUME 197
PAGE 150

Sec 24

(CONFIDENTIAL)
Recvd. after Rept. Comm. Dec 12. 29

Since the meeting of the Committee on September 24, the credit situation has changed abruptly. There has been a severe liquidation of credit against securities under circumstances which constitute a serious threat to business stability at a time when there were already indications of a business recession. This seems clearly to indicate the need of having the Federal Reserve System do all within its power toward assuring the ready availability of money for business, at reasonable rates.

In view of these circumstances and for the purpose of avoiding any increase, and if possible facilitating some reduction, in the total volume of member bank discounts, the Committee believes that the System should be prepared to increase the open market holdings of the Federal reserve banks through the purchase of bills if they can be acquired in sufficient amounts without interfering with their present desirable distribution, and if not, through the purchase of Government securities.

It is believed by the Committee that this may be done with safety in the interest of business without the risk that funds so put out by the Federal reserve banks would be used to stimulate any abnormal or unnecessary expansion of member bank credit.

The Committee also has in mind the fact that present conditions may possibly develop to the point where, as an emergency measure, in the interest of maintaining banking and business stability, it may be necessary quickly to purchase large amounts of Government securities in order to avoid any undue stringency in credit.

The Committee therefore recommends that the present limit of $25,000,000 per week on the purchase of Government securities be removed and that the Committee be authorized in lieu therefor to purchase not to exceed $200,000,000 of Government securities for account of such banks as care to participate, in order that it might be empowered and prepared to make purchases of Government securities as and when it may seem to be necessary for the purposes, or in the contingencies outlined above, but only with the understanding that there be a careful current review by the Federal Reserve Board and the Committee of the consequences of any such purchases that may be made, and that another meeting with the Board be held at any time it may seem desirable to the Board or the Committee, and that in any event there be another such meeting not later than the first week in January.

B 151

VOLUME 197
PAGE 151

Resolution Presented by C.S. Hamlin to Board on November 12, 1929.

Finally withdrew. Board letter drafted by Miller, adopted Nov. 13, 1929

The authority asked for by the Open Market Investment Committee is hereby granted, subject to change on reasonable notice, on the understanding, however, that as far as practicable, - in the absence of acute emergencies, - the Committee shall exercise the authority herein granted in consultation with the Governor of the Federal Reserve Board.

Q152

VOLUME 197
PAGE 152

See Bu

November 13, 1929.

Passed
Platt only voting No

Dear Governor Harrison:

The Federal Reserve Board has had under consideration the report of the Open Market Investment Committee, dated November 12, and notes that the Committee's recommendations relate, (1) to the more permanent features of open market policy and, (2) to a possible emergency operation.

The Board feels that the general situation is not sufficiently clarified for the System to formulate and adopt a permanent open market policy at this time. The Board has that under continuous consideration and will be glad to confer further with the Committee as we approach more nearly steadied credit conditions.

The Board fully appreciates the possibility that a situation may arise speedily that will call for an open market operation on the part of Federal reserve banks by the purchase of Government securities. To this end the Board has arranged to act promptly on the application of the Committee or any Federal reserve bank to purchase securities in a sudden contingency. It has authorized the Governor, should the Board not be immediately available, to act on its behalf in giving approval in an emergency to purchases. In the event that an emergency should arise with such suddenness and be so acute that it is not practicable to confer with the Governor, the Board will interpose no objection to a purchase operation being undertaken, with the understanding, however, that prompt advice of such purchase be furnished the Board.

This action of the Board supersedes the authority which was granted to the Open Market Investment Committee on September 24, 1929, to purchase not to exceed $25,000,000 per week of Government securities.

Very truly yours,

R. A. Young,
Governor

B153

Mr. Geo. L. Harrison, Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York City, N. Y.

VOLUME 197
PAGE 153