

In accordance with the terms of adjournment at the meeting this morning, a meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, December 19th, at 3:00 p.m.

PRESENT: Governor Crissinger
 Mr. Platt
 Mr. Hamlin
 Mr. Miller
 Mr. James
 Mr. Cunningham
 Mr. Eddy, Secretary.

Report of the Committee on Salaries and Expenditures on salary recommendations, for the year 1924, submitted by the board of directors of the Federal Reserve Bank of Minneapolis for both head office and branch.

Upon motion, the recommendations of the Committee on Salaries and Expenditures with respect to officers and to employees receiving both over \$2,500 per annum and \$2,500 or less per annum were approved.

Upon motion, the salaries of all officers and employees not covered in the report of the Committee on Salaries and Expenditures were approved at present figures.

Report of Committee on Salaries and Expenditures on salary recommendations, for the year 1924, submitted by the board of directors of the Federal Reserve Bank of Dallas for both head office and branches.

Upon motion, the recommendations of the Committee on Salaries and Expenditures with respect to officers at the head office were approved, with the exception of that for Governor McKinney and Mr. Stroud, General Counsel.

Mr. Miller voted "no" on the recommendation relating to Mr. Hall, Assistant Federal Reserve Agent and Governor Crissinger on that relating to Mr. Grund, Auditor.

Upon motion, the recommendation relating to Mr. Stroud, General Counsel, was referred to the Law Committee.

A motion by Mr. James, to approve the increase from \$18,000 to \$20,000, recommended for Governor McKinney, was lost, the members voting as follows:

Governor Crissinger "no"
 Mr. Platt "no"
 Mr. Miller "no"
 Mr. Hamlin "aye"
 Mr. James "aye"
 Mr. Cunningham "aye"

Mr. James moved that the Board increase the salary of Mr. Talley, Chairman of the Board and Federal Reserve Agent from \$18,000 to \$20,000.

This motion being put by the chair was lost, the members voting as follows:

Governor Crissinger "no"
Mr. Platt "no"
Mr. Miller "no"
Mr. Hamlin "aye"
Mr. James "aye"
Mr. Cunningham "aye"

Upon motion, the recommendations of the Committee with respect to employees at the head office receiving both over \$2,500 per annum and \$2,500 or less per annum were approved.

Upon motion, the recommendations of the Salary Committee with respect to officers and employees of the El Paso Branch were approved, with the exception of that regarding the pegging of official salaries which was, upon motion, disapproved.

Upon motion, the recommendations of the Committee with respect to officers and employees of the Houston Branch were approved.

Upon motion, the salaries of all officers and employees not covered in the report of the Committee on Salaries and Expenditures were approved at present figures.

Report of Committee on Salaries and Expenditures on salary recommendations, for the year 1924, submitted by the board of directors of the Federal Reserve Bank of Philadelphia.

Upon motion, the recommendations of the Committee with respect to officers and to employees receiving \$2,500 or less per annum were approved.

Upon motion by Mr. Hamlin, the increases proposed for employees receiving over \$2,500 per annum, upon which the Committee made no recommendation, were approved.

Upon motion, the salaries of all officers and employees not covered in the report of the Committee on Salaries and Expenditures were approved at present figures.

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Report of the Committee on Salaries and Expenditures on salary recommendations, for the year 1924, submitted by the board of directors of the Federal Reserve Bank of Richmond for both head office and branch.

Upon motion, the recommendation of the Committee on Salaries and Expenditures regarding the officers of the Federal Reserve Bank of Richmond, was approved, Mr. Hamlin not voting, with the exception of that for Counsel which was referred to the Law Committee.

Upon motion, the recommendations of the Committee regarding employees receiving both over \$2,500 per annum and \$2,500 and less per annum were approved.

At this point Mr. Cunningham left the meeting.

Upon motion, the recommendations of the Committee with respect to officers and employees of the Baltimore Branch were approved.

Upon motion, the salaries of all officers and employees not covered in the report of the Committee on Salaries and Expenditures were approved at present figures.

Mr. Hamlin moved that the salary of Mr. Curtiss, Chairman and Federal Reserve Agent at Boston, be increased from \$18,000 to \$20,000.

Mr. Hamlin's motion being put by the chair was lost, the members voting as follows:

Governor Crissinger "no"
 Mr. Miller "no"
 Mr. James "no"
 Mr. Platt "aye"
 Mr. Hamlin "aye"

Salary recommendations, for the year 1924, submitted by the board of directors of the Federal Reserve Bank of San Francisco, for both head office and branches; the Committee on Salaries and Expenditures submitting no report thereon.

Upon motion by Mr. Miller, all recommendations with regard to both officers and employees of the head office and branches were approved, Mr. Hamlin voting "no", with the exception of that for counsel of the bank which was referred to the Law Committee.

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At this point Governor Strong, Mr. Jay and Dr. Stewart entered the meeting and submitted to the Board final draft, as follows, of a statement on open market operations during the years 1922 and 1923, for insertion in the January issue of the Federal Reserve Bulletin:

"Constancy of reserve bank credit. - At the Federal reserve banks discounts increased rapidly during the year, but there was a corresponding decline in open-market holdings, with the result that total earning assets remained relatively stable. In fact, as shown by the chart, relative stability in the total volume, with changes in the composition, has been the principal characteristic of Federal reserve bank assets during the past two years. During these two years the country steadily used from \$1,000,000,000 to \$1,200,000,000 of reserve bank credit. In view of this relatively constant demand, the years 1922 and 1923 afford an opportunity of observing the effect of changes in the volume of open-market holdings upon the volume of member bank discounts. This changing relationship was commented on in the May and July issues of the Bulletin, and it now seems appropriate, at the close of the year, to make a more complete review of the relation between the two elements of Federal reserve credit policy -- rediscount operations and open-market operations.

In the early part of 1922 the reserve banks purchased a considerable volume of short term Government securities in the open-market, partly for the purpose of obtaining earnings, and in 1923 they greatly reduced their holdings of these securities. In the absence of change in the aggregate demand for reserve bank credit, the increases in open-market purchases during 1922 were offset by a corresponding decline in the volume of discounts, and in 1923 the reduction in securities was accompanied by a substantially equivalent increase in discounts.

In 1922 when the reserve banks bought securities the funds which they paid to the sellers found their way into member banks and permitted these banks to repay an equal amount of their rediscounts. The aggregate amount of reserve bank credit in use was not increased or even materially changed; a certain amount of their 'rediscounts' were merely thus converted into 'securities.' But the effect on the member banks, particularly in the large centers, was to add to their loanable funds or to enable them to reduce their indebtedness at the reserve banks. Under such conditions banks are likely to lend more fully to their customers and others.

In 1923, on the other hand, when the reserve banks reduced their security holdings, they withdrew from the market an equivalent amount of funds. Following the withdrawal, the market borrowed substantially the same amount from the banks; and the banks, in turn,

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"rediscounted substantially the same amount at the reserve banks, so that there was no material change in the total volume of Federal reserve bank credit in use.

Open-market policy. - The volume of open-market holdings with which the reserve banks entered the year 1923 put them in possession of an admirable instrument for testing the degree of dependence of the credit structure upon Federal reserve bank accommodation and for placing the initiative upon member banks to determine the volume of reserve bank credit required to meet the needs of business and industry. For in rediscount operations the initiative is taken by the member banks, which borrow from the reserve banks at the established discount rate, while in open-market operations the initiative is taken by the reserve banks, which buy or sell short term securities in the market largely at their own volition and at market rates. The fact that the reduction of open-market holdings during 1923 was accompanied by an amount of discounting by member banks approximately equal to the volume of funds withdrawn from the market by Federal reserve banks indicated that the total volume of reserve bank credit outstanding was not in excess of requirements.

Federal reserve credit policy during the year has been reflected chiefly in open-market operations. As the aggregate demand of the country for reserve bank credit may be met either through rediscount or open-market operations, the Federal Reserve Board felt that these two methods of extending credit should be brought into harmony. The Board, therefore, in April, 1923, appointed a committee of officers of reserve banks to act in conjunction with the Board in effecting a more complete coordination of all open-market operations of the reserve banks, both on their own account and in the execution of orders in government securities for the Treasury as fiscal agents of the government.

At the time the committee was appointed, the Federal Reserve Board adopted the principle:

'That the time, manner, character and volume of open-market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.'

As the Act provides that discount rates shall be fixed 'with a view of accommodating commerce and business,' the adoption of this principle definitely established open-market policies on the same basis as discount policies. Open-market operations provide a cushion of credit between the direct borrowings of member banks and the

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"money market, and have facilitated the flow of credit into and out of the reserve banks, in such a way as to exercise a steadying influence in the market and to reduce the tendency toward periodical tightness of money formerly felt by business in the spring and by agriculture in the autumn. Indeed, open-market operations, particularly sales of securities, have proved to be a valuable adjunct to discount policy. The minor influence which sales of securities by reserve banks exerts may, at times, avoid the necessity for resorting to the major influence of a change in discount rates.

Discount rate changes in 1923 were fewer than in any other year in the history of the system. Advances in discount rates from 4 per cent to 4½ per cent at the Federal reserve banks of Boston, New York, and San Francisco were made early in the year, and since that time the level of rates has been the same at all the reserve banks. With the growth of discounts, however, which accompanied the reduction in the holdings of government securities, the influence of existing discount rates was extended to a larger proportion of the total Federal reserve bank credit in use, and the cost of obtaining reserve bank credit was borne more directly by member banks. Changes in discount rates attract more attention than open-market operations, and yet during the past year changes in the volume of securities held by the reserve banks has been an important influence. The weekly statements of condition of the Federal reserve banks give full publicity to the amount and composition of open-market holdings and make it possible for the public to follow these changes from week to week."

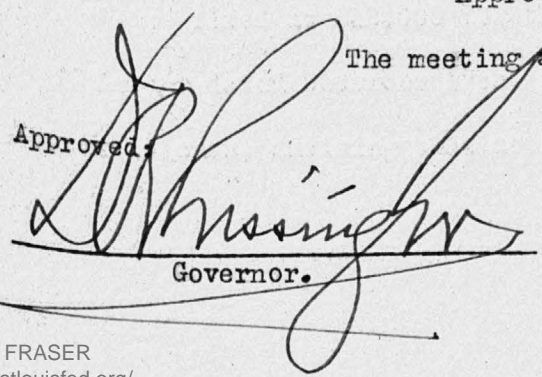
Mr. Hamlin moved that the statement submitted be approved.

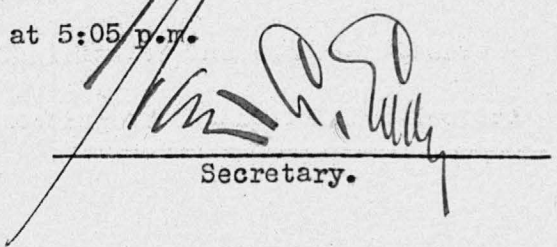
Carried.

REPORTS OF STANDING COMMITTEES:

Dated December 18th, Recommending approval of the application of Mr. Walter W. Moyer to serve at the same time as director of the Ephrata National Bank of Ephrata, Penna. and as director of the Pennsylvania Trust Company of Reading, Penna.
Approved.

The meeting adjourned at 5:05 p.m.

Approved: 
Governor.


Secretary.