A meeting of the Federal Reserve Board was held in the Office of the Federal Reserve Board on Tuesday, February 5, 1929, at 12:15 p. m.

PRESENT: Governor Young
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. Noell, Assistant Secretary
Mr. McClelland, Assistant Secretary

The Governor brought up the matter on which action was deferred at the meeting of the Board on January 28th, namely, memorandum from Counsel dated January 23rd, submitting and recommending that there be published in the forthcoming issue of the Federal Reserve Bulletin, a brief statement with regard to the amendment to Section 5 of Regulation "J", Series of 1928, which was adopted by the Board effective February 1, 1929.

After discussion, upon motion, it was voted to approve publication of the statement submitted by Counsel.

Governor Harrison, of the Federal Reserve Bank of New York, then entered the meeting and advised the Board of consideration given by the board of directors of the Federal Reserve Bank of New York to the present credit situation and the possible necessity of an increase in the discount rate of the bank, should other efforts fail to halt the increasing volume of credit. He stated that the directors of the New York bank do not want to increase their discount rate except as a last resort.

A detailed discussion ensued with respect to action, short of an increase in rates, which might be taken to halt further credit expansion. Certain members of the Board expressed the opinion that further efforts should be made along the line of so-called direct action and that a rate increase should not be considered until the System is satisfied that all other means have been exhausted.

The meeting recessed at 2:15 p. m. and reconvened at 3:20 p. m., the same members being present as attended the morning session. Dr. Goldenweiser, Director of the Division of Research and Statistics, was also in attendance.

In accordance with the action of the Board at the meeting yesterday, Mr. Miller submitted draft of a proposed public statement with respect to the credit situation, quoting from the Board's letter of February 2nd to all Federal reserve banks on the subject of the improper use of the credit facilities of the Federal reserve system. During the discussion which ensued, the proposed statement was amended to read as follows:

"The United States has during the last six years experienced a most remarkable run of economic activity and productivity. The production, distribution and consumption of goods have been in unprecedented volume. The economic system of the country has functioned efficiently and smoothly. Among the factors which have contributed to this result, an important place must be assigned to the operation of our credit system and notably to the steadying influence and moderating policies of the Federal Reserve System.

During the last year or more, however, the functioning of the Federal Reserve System has encountered interference by reason of the excessive amount of the country's credit absorbed in speculative security loans. The credit situation since the opening of the new year indicates that some of the factors which occasioned untoward developments during the year 1928 are still at work. The volume of speculative credit is still growing.

Coming at a time when the country has lost some 500 million dollars of gold, the effect of the great and growing volume of speculative credit has already produced some strain, which has reflected itself in advances of from 1 to 1-1/2 per cent in the cost of credit for commercial uses. The matter is one that concerns every section of the country and every business interest, as an aggravation of these conditions may be expected to have detrimental effects on business and may impair its future.

The Federal Reserve Board neither assumes the right nor has it any disposition to set itself up as an arbiter of security speculation or values. It is, however, its business to see to it that the Federal reserve banks function as effectively as conditions will permit. When it finds that conditions are arising which obstruct Federal reserve banks in the effective discharge of their function of so managing the credit facilities of the Federal Reserve System as to accommodate commerce and business, it is its duty to inquire into them and to take such measures as may be deemed suitable and effective in the circumstances to correct them; which, in the immediate situation, means to restrain the use, either directly or indirectly, of Federal reserve credit facilities in aid of the growth of speculative credit. In this connection, the Federal Reserve Board, under date of February 2nd, "addressed a letter to the Federal reserve banks, which contains a fuller statement of its position:-

'The firming tendencies of the money market which have been in evidence since the beginning of the year - contrary to the usual trend at this season - make it incumbent upon the Federal reserve banks to give constant and close attention to the situation in order that no influence adverse to the trade and industry of the country shall be exercised by the trend of money conditions, beyond what may develop as inevitable.

The extraordinary absorption of funds in speculative security loans which has characterized the credit movement during the past year or more, in the judgment of the Federal Reserve Board, deserves particular attention lest it become a decisive factor working toward a still further firming of money rates to the prejudice of the country's commercial interests.

The resources of the Federal Reserve System are ample for meeting the growth of the country's commercial needs for credit, provided they are competently administered and protected against seepage into uses not contemplated by the Federal Reserve Act.

The Federal Reserve Act does not, in the opinion of the Federal Reserve Board, contemplate the use of the resources of the Federal reserve banks for the creation or extension of speculative credit. A member bank is not within its reasonable claims for rediscount facilities at its Federal reserve bank when it borrows either for the purpose of making speculative loans or for the purpose of maintaining speculative loans.

The Board has no disposition to assume authority to interfere with the loan practices of member banks so long as they do not involve the Federal reserve banks. It has, however, a grave responsibility whenever there is evidence that member banks are maintaining speculative security loans with the aid of Federal reserve credit. When such is the case the Federal reserve bank becomes either a contributing or a sustaining factor in the current volume of speculative security credit. This is not in harmony with the intent of the Federal Reserve Act nor is it conducive to the wholesome operation of the banking and credit system of the country.'"

Mr. James moved that the statement, as quoted above, be included in the forthcoming issue of the Federal Reserve Bulletin and also prepared as a press release tomorrow afternoon at 3 o'clock, for publication not earlier than the morning papers of Thursday, February 7th.

Mr. James' motion being put by the chair was carried, Governor Young voting "no."

A discussion ensued as to the possibility of publication of the statement in the papers tomorrow morning, February 6th. It was the consensus of opinion, however, that suitable distribution could not be obtained at this late hour. The Secretary was instructed, however, to advise newspaper correspondents this evening, so far as possible, that the statement has been prepared and will be released tomorrow afternoon.

The meeting adjourned at 5:15 p. m.

E. M. McClelland
Assistant Secretary

Approved:

R. A. Young
Governor