

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, March 21, 1929 at 11:00 a.m.

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

The minutes of the meeting of the Federal Reserve Board held on March 20th were read and approved.

Telegram dated March 20th from the Chairman of the Federal Reserve Bank of St. Louis, advising that the board of directors at a meeting on that date made no change in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Memorandum dated March 21st from the Division of Bank Operations, transmitting statements of expenditures by the Federal Reserve banks for educational and welfare work, etc. during the month of February and for the two months' period ending February 28th.

Ordered circulated.

The Secretary then presented and read the following telegram dated March 20th from the Chairman of the Federal Reserve Bank of San Francisco:

"Answering telegram nineteenth separate conferences have been held with presidents of banks which have been practically continuous borrowers and the question of rediscounts thoroughly discussed with the understanding that they were to be gradually reduced. We did not expect much reduction to be made until after tax assessment day and income tax payment now both passed. Rediscounts in district February fifth eighty two million reserve ratio sixty three point seven. March fifth tax assessment

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"day rediscounts one hundred one million reserve sixty point four. March eleventh one hundred four million reserve sixty point five. March nineteenth sixty eight million reserve seventy point seven. We have reason to believe that further reductions will be prompt. All parties claim continuous rediscounting due to over-purchase of bonds and certificates and that decline in value prohibits sale except at considerable loss. Each officer offered to sell and assume loss should we request it. We did not desire to assume this responsibility and told them that we considered it possible for them to adjust without sale. We know of no banks in this district that are lending on call in New York or outside of this district which are persistent borrowers. Your telegram and this answer will be presented to our board of directors at meeting tomorrow."

During the discussion of the above telegram, the Governor was called from the room to confer with the Secretary of the Treasury. Upon his return, he reported to the Board that a day or two ago Governor Harrison of the Federal Reserve Bank of New York advised him over the telephone that Acting Chairman Woolley of that bank, whom it is understood has been opposed to such action, now feels that the rate should be increased and that the action should be taken promptly. Governor Harrison suggested that Mr. Woolley and he might come to Washington for a discussion with the members of the Board and inquiry was made as to whether their visit should be prior or subsequent to the meeting of the board of directors of the bank today. The Governor stated that he thought it would be better for them to come to Washington tomorrow after the matter had been discussed by the directors of the bank, and arrangements were made accordingly. He stated that this morning, however, Governor Harrison again called him and advised that as market rates on acceptances have gone up and it will be necessary for the Federal Reserve bank to adjust its buying rates, he will have to recommend an increase in rate to his directors at their meeting today. He stated that Governor Harrison advised that disregarding his own

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position, the condition of the security markets and the possible effect the rate change might have on those markets, it is felt that the rate structure is so upset in New York that the Federal Reserve bank can not longer maintain its present rate. The Governor stated that he informed Governor Harrison that he would advise the Board, which will be prepared to consider any action which his directors may take. The Governor also stated that he discussed the matter with the Secretary of the Treasury, who advised that as far as the Department was concerned he did not care what action was taken. He stated that while he would prefer not to do so, if the Board wished, he would join the meeting this afternoon and if an increase in rate is submitted by the New York directors, he would vote against its approval by the Board at this time.

A discussion of the proposed increase in bill rates ensued, and inquiry was made of the Governor as to whether he has been able, in accordance with the request made of him recently, to arrange any change in procedure by which proposed bill rates would be submitted to the Board for approval in advance of their being made effective. The Governor stated that when he was last in New York he discussed the matter, particularly with Deputy Governor Kenzel who is in charge of bill operations, who advised him that in ordinary times he believed the bank could operate if it were authorized to adjust the bill rate within one-half of one percent under the discount rate of the bank, but that at the present time with the bill market so uncertain he did not feel that anything could be done except to follow the market rates.

The Governor suggested that, in his opinion, it would be most desirable to have a conference between the members of the Board and the direct-

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ors of the Federal Reserve Bank of New York for a full exchange of views regarding the present situation, which, he believed, should take place in New York as the directors of that bank, being engaged in their own businesses, might not be able conveniently to come to Washington.

Mr. Hamlin moved that the Governor endeavor to arrange to have a committee, at least, of the directors of the Federal Reserve Bank of New York, come to Washington at their convenience for a conference with the Board.

Mr. Platt moved, as an amendment, that a committee of the Board, consisting of the Governor, Mr. Miller and Mr. Hamlin, and such other members as may care to, go to New York for a meeting with the directors of the Federal Reserve bank.

Mr. Miller moved, as a substitute, that the Governor advise Governor Harrison that during the discussion today there was some expression that probably matters would clarify themselves if the members of the Board and directors of the Federal Reserve Bank of New York got into contact with one another, and ask that he submit the matter to his directors and ascertain whether they have any suggestion to make.

Mr. Miller's substitute motion being put by the Chair was carried, Mr. Cunningham voting "no".

Mr. Cunningham stated that he has no objection to a conference at any time with the directors of the New York bank or of any Federal Reserve bank, but that he feels in view of the circumstances and the suggestion which was submitted by the New York bank for discussion, which is an increase in the discount rate, the conference should be held in Washington.

Telegram dated March 21st from the Deputy Governor of the Federal Reserve Bank of New York, advising that following advances in market rates this morning, the new schedule of rates for purchases of acceptances was made effective

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at that bank today, as follows:

Bankers Acceptances:		
1 to 45 days	-	5 1/4%
46 to 90 days	-	5 3/8%
91 to 120 days	-	5 1/2%
121 to 180 days	-	5 5/8%
Repurchase	-	5 1/4%
Trade Acceptances	-	5 1/2%

Noted, with approval, Mr. James voting "no".

Telegram dated March 21st from the Governor of the Federal Reserve Bank of Boston, advising of the establishment of the schedule of rates for purchases of acceptances made effective today at the Federal Reserve Bank of New York, as set out above.

Noted with approval, Mr. James voting "no".

Telegram dated March 21st from the Chairman of the Federal Reserve Bank of Chicago, advising of the establishment today of the following schedule of rates for purchases of bankers acceptances:

1 to 45 days	-	5 1/4%
46 to 90 days	-	5 3/8%
91 to 120 days	-	5 1/2%
121 to 180 days	-	5 5/8%

Noted with approval, Mr. James voting "no".

The Governor then left the room and communicated with Governor Harrison of the Federal Reserve Bank of New York, whom he advised of the motion adopted by the Board. Upon his return, he stated that Governor Harrison would be glad to put the matter up to the directors of his bank at their meeting this afternoon. He stated that Governor Harrison referred further to the recommendation

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for an increase in rate which he will make to his directors, stressing the fact that large New York City member banks appear to be in favor of an increase as they are finding it increasingly difficult, in the face of the present rate, to continue their cooperation with the Federal Reserve bank in dealing with the credit situation. The Governor stated that Governor Harrison admitted that the only phase of the matter is that it would enable the member banks to charge their customers a higher rate.

At 1:00 p.m. the meeting recessed, and reconvened at 3:30 p.m., the same members being present as attended the morning session and also Mr. Pole.

The Governor reported a telephone conversation with Governor Harrison of the Federal Reserve Bank of New York, who stated that the idea of a conference with the Board appeals to the directors of his bank, who are now in session and who have asked Acting Chairman Woolley and Governor Harrison to meet with the Board in Washington as soon as convenient. He also stated that the directors would welcome any members of the Board who may care to come to New York for a meeting there.

Governor Young reported, however, that because of the increase in the bank's schedule of rates for purchases of acceptances which was necessary today, and the general firming of rates, with evidence of further increases, as well as for other reasons which have previously been communicated through him to the Board by Governor Harrison, the directors of the New York bank have voted to establish a rediscount rate of 6% on all classes of paper of all maturities subject to review and determination by the Board, with the

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understanding, however, that their action is predicated upon approval or disapproval by the Federal Reserve Board today. The Governor also reported that Mr. Woolley would be glad to discuss with any members of the Board over the telephone the reasons why it is felt that action is necessary today.

Mr. Hamlin moved "That the Federal Reserve Bank of New York be advised that the Federal Reserve Board has received the advice that the directors of that bank have established a re-discount rate of six per cent, with the understanding, however, that their action is predicated upon approval or disapproval by the Federal Reserve Board today, and that the Board disapproves the action of the New York directors, and has determined that the rate of the bank be five per cent."

Mr. Platt moved, as substitute for Mr. Hamlin's motion "That the rate of 6% established by the directors of the Federal Reserve Bank of New York on all classes of paper of all maturities be approved, effective tomorrow, March 22nd."

After discussion, Mr. Platt's substitute motion was put by the Chair and lost, Mr. Platt voting "aye".

Mr. Hamlin's original motion was then put by the Chair and carried, Mr. Platt voting "no".

The Governor stated that he voted "aye", not because he is opposed to an increase in rate at this time, but solely to support the position of the majority of the Board.

Mr. Cunningham stated that his position on the motion just adopted, regarding the action of the directors of the Federal Reserve Bank of New York, is explained in part in a resolution which he submitted, reading as follows:

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"Whereas, on March 7th, 1929, Counsel reported to the Federal Reserve Board on the subject 'Power of the Board to enforce principles regarding the proper use of credit facilities of the Federal Reserve System laid down in the Board's letter of February 2nd, 1929'; and

Whereas, quoting the language of paragraphs two (2) and three (3) on page three (3) of said report, as follows:

'(2) The Board could, if it deems it advisable, prescribe a regulation forbidding any Federal reserve bank to rediscount any paper for, make any loan or advance to, or purchase any bills of exchange, bankers' acceptances, or government, State, or municipal securities (under repurchase agreements or otherwise) from, any member bank which at the time: (1) Has loans outstanding to brokers or dealers in stocks, bonds or other investment securities; or (2) has unreasonably large amounts of speculative loans outstanding to customers secured by stocks, bonds, or other investment securities, or the proceeds of which have been or are to be used for the purpose of carrying or trading in stocks, bonds, or other investment securities.

'(3) The Board has ample power to enforce such a regulation by suspending or removing from office the officers and directors of any Federal Reserve bank which violates it.'

Therefore, Be It Resolved that the counsel is hereby requested to prepare and submit to the Federal Reserve Board for its approval, a regulation providing in substance the following: That except with the permission of the Federal Reserve Board granted upon an affirmative vote of not less than five (5) members of said Board, no Federal Reserve Bank is permitted to rediscount for or make any loan or advance to, or purchase any bills of exchange, bankers acceptances, or government, State or municipal securities (under repurchase agreement or otherwise) for any member bank which at the time has loans outstanding to brokers or dealers in stocks, bonds, or other investment securities or has unreasonably large amounts of speculative loans outstanding to customers secured by stocks, bonds or other investment securities or the proceeds of which have been or are to be used for the purpose of carrying or trading in stocks, bonds, or other investment securities."

Although Mr. Cunningham did not request immediate action on the above resolution, inasmuch as it merely directs counsel to proceed with the preparation of a form of regulation to be submitted to the Board later for consideration, the resolution was, upon motion, adopted, Governor Young voting "no".

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Mr. Miller then left the meeting to talk over the telephone with Director Woolley of the Federal Reserve Bank of New York, and upon his return advised the Board that Mr. Woolley will be in Washington tomorrow morning for a conference.

Telegram dated March 21st from the Chairman of the Federal Reserve Bank of Richmond, advising of the establishment today of the following schedule of rates for purchases of bankers acceptances:

1 to 45 days	-	5 $\frac{3}{8}$ %
46 to 90 days	-	5 $\frac{1}{2}$ %
91 to 120 days	-	5 $\frac{5}{8}$ %
121 to 180 days	-	5 $\frac{3}{4}$ %

Noted with approval, Mr. James voting "no".

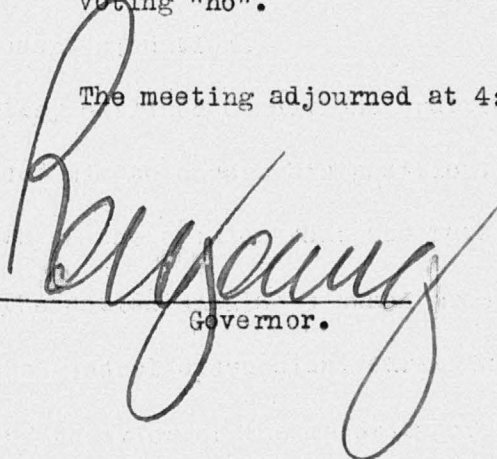
Telegram dated March 21st from the Governor of the Federal Reserve Bank of St. Louis, advising of the establishment today of the following schedule of rates for purchases of bankers acceptances:

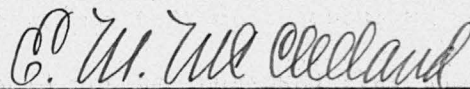
1 to 45 days	-	5 $\frac{1}{4}$ %
46 to 90 days	-	5 $\frac{3}{8}$ %
91 to 120 days	-	5 $\frac{1}{2}$ %
121 to 180 days	-	5 $\frac{5}{8}$ %

Noted with approval, Mr. James voting "no".

The meeting adjourned at 4:05 p.m.

Approved:


Governor.


Assistant Secretary.