A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, April 24, 1929 at 11:15 a.m.

PRESENT: Vice Governor Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. Pole
Mr. Noell, Asst. Secretary
Mr. McClelland, Asst. Secretary
PRESENT ALSO: Mr. McGarrah, Federal Reserve Agent at New York

Mr. McGarrah, who has just returned from a trip abroad where he attended a meeting of the General Counsel of the Reichsbank, of which he is a member, advised the Board at some length of impressions which he formed during his visit with regard to business and financial conditions in various European countries.

The Vice Governor then presented a letter dated April 23rd from the Deputy Governor of the Federal Reserve Bank of New York, advising of further sales from the Open Market Investment Account made for the purpose of offsetting gold imports, reducing that account to $20,000,000, exclusive of the $9,500,000 of notes held temporarily for the Federal Reserve Bank of St. Louis; the letter stating that further sales may presently be made to advantage as the market for government securities has become a trifle stronger, with some demand for the 3 1/2% notes of 1930-32 which are held in the System Account.

Noted.

With regard to the domestic situation, Mr. McGarrah stated that his only concern is about what may happen when the fall demand for credit sets in and that he believes if the rate were increased to 6% it might be possible to reverse the policy in time to meet the fall requirements. He stated that

if a 6% rate were prolonged for any length of time it would undoubtedly have a bad effect upon business, but that if the present situation should continue until the fall the effect might be such that it would take a year or more for the business of the country to recover. He stated that he thought the objective of the System should be to reduce the amount of Federal Reserve credit in use so as to get on a basis to take care of the legitimate fall demands of business. He said that otherwise there might be such a large volume of Federal Reserve credit in use in the fall that borrowers would not be accommodated at a reasonable rate, mentioning 6%. He expressed the opinion that an increase in rate at this time would bring about some liquidation and stated that, in his opinion, the liquidation would not come solely from speculative security loans. He stated that, in his opinion, building has been going along at too rapid a pace and that the borrowings of municipalities have been too heavy, as an indication that credit is being used very liberally outside of security loans.

Mr. McGarrah was advised of the attitude of the Board that its responsibility is confined to preventing the misuse of the discount facilities of the Federal Reserve System which seems to be centered largely in thirty-seven banks in the larger cities which have been borrowing continuously, each in excess of $5,000,000 for a considerable length of time, while at the same time carrying heavy investments in brokers loans.

Mr. Cunningham stated that the most recent figures on these banks are that their rediscounts aggregate $406,000,000, while their loans to brokers for their own account total $776,000,000. The remaining 557 reporting member banks, Mr. Cunningham stated, are borrowing $300,000,000 from the Federal Reserve banks and carrying $1,374,000,000 of brokers loans.

Mr. Miller expressed the opinion of the majority of the Board that approval of an increase in discount rates would be a confession of the inability of the System to deal with a limited number of member banks which are misusing its facilities other than by imposing the penalty of increased rates upon the entire banking and business structure of the country.

Mr. McGarrah stated that, in his opinion, conditions on February 16th were ideal for an increase in rate. He stated that if the increase had been approved by the Board at that time and had not been effective within two weeks, he would have been in favor of a further increase to 7%. He stated that he did not believe it would have been necessary to go higher than 7%.

The meeting adjourned at 1:15 p.m.

C. W. McCleland
Assistant Secretary.

Approved:

Edmund Platt
Vice Governor.