A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, April 30, 1929 at 2:45 p.m.

PRESENT: Vice Governor Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. Noell, Asst. Secretary
Mr. McClelland, Asst. Secretary
PRESENT ALSO: Mr. Smead, Chief, Division of Bank Operations.

Mr. Hamlin referred to the action of the Board at the meeting yesterday in authorizing the Law Committee to arrange with Mr. Newton D. Baker to confer with the Board's General Counsel on the questions covered in his memorandum of March 7th on the subject of the power of the Board to enforce the principles regarding the proper use of the credit facilities of the Federal Reserve System, laid down in the Board's letter of February 2nd to all Federal Reserve banks. He stated that arrangements have been made for Mr. Wyatt to go to Cleveland to confer with Mr. Baker on Friday morning, but that if the Board prefers, Mr. Baker could come here for the Conference. He also inquired whether the Board desires Messrs. Baker and Wyatt to prepare draft of a letter to the Attorney General, for future use, requesting his opinion on the questions covered in the memorandum of March 7th.

After discussion, it was the consensus of opinion that it would perhaps be better for Mr. Baker to come to Washington and, after conference with Mr. Wyatt, meet with the Board.

Consideration was then given to draft of a letter to the Acting Chairman of the Federal Reserve Bank of Philadelphia, along the lines of the letter considered at recent meetings of the Board for transmittal to all Federal Reserve Banks, requesting further and fuller cooperation in the Board's policy of pre-

venting the misuse of the discount facilities of the Federal Reserve System.

During the discussion which ensued, the letter was amended to read as follows:

"The Federal Reserve Board has considered the letter of your directors of April 24th, and I am instructed to advise you as follows:

In a letter under date of February 2nd to the Directors of Federal reserve banks on the use of Federal reserve credit by member banks, the Federal Reserve Board, for the better and more definite guidance of Federal reserve banks in their dealings with member banks and of member banks in their dealings with Federal reserve banks, undertook to state the principle which should govern with regard to certain uses of Federal reserve credit by member banks:

> '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.'

In a statement published February 7th the Federal Reserve Board, in order that both the banks and the business and general public might be more fully informed of the attitude and the purpose of the Board in this matter, stated it to be the business of the Federal Reserve Board

> '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 or 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 of Federal reserve credit facilities, either directly or indirectly, in aid of the growth of speculative credit.'

In reviewing banking developments (as disclosed in the statement of condition of the 592 weekly reporting banks) since February 6th, the date of issue of the Federal Reserve Board's statement, improvement in the aggregate situation is noted:-

	February 6	April 24	Increase or Decrease
	(Amounts in millions of dollars)		
Total Loans and Investments	22,294	22,259	- 35

Security Loans			
To Brokers	2,587	2,177	- 410
To Others	4,969	5,158	+ 189
All Other Loans	8,698	9,052	+ 354
Investments	6,041	5,871	- 170

Detailed analysis does not appear to show that the improvement in the aggregate situation noted above has been realized in your district, as shown by the following table for your district:

	February 6	April 24	Increase or Decrease
	(Amounts in millions of dollars)		
Total Loans and Investments	1,237	1,258	+ 21
Security Loans			
To Brokers	174	160	- 14
To Others	336	358	+ 22
All Other Loans	385	418	+ 33
Investments	342	321	- 21

There appear to be banks in your district, still carrying considerable volumes of security loans, which have been continuous or frequent borrowers in considerable amounts from your Federal reserve bank.

The following named banks which have been borrowing more or less continuously from your Federal reserve bank and have not effected any substantial liquidation in their security loans since February 6th, will serve to illustrate the class of banks the Board has in mind. Other banks in your district which fall in the same general class can readily be determined from your records.

Bank of North America and Trust Company
Fidelity-Philadelphia Trust Co.
First National Bank
Pennsylvania Company for Insurance on lives, etc.
Corn Exchange National Bank and Trust Co.,
Philadelphia National Bank
Provident Trust Company
Tradesmen's National Bank and Trust Co.

The problem presented by these facts is that of bringing all member banks into effective cooperation with the reasonable purposes of the Federal Reserve System by putting themselves into line with the principle of conduct above stated.

"To this end the Board requests the cooperation of your Board in communicating with each of your member banks concerned in such wise as your Board may deem most suitable, and in the name both of your bank and of the Federal Reserve Board, inquiring whether there is anything in its condition which makes it impracticable for it to readjust its position in accordance with the principle stated above; or anything in the situation surrounding it which makes such readjustment undesirable from the point of view of the public interest.

The Board desires that it be ascertained from each of the member banks concerned, which has not yet readjusted its position, why it should not bring about the readjustment expected by the Board.

It is the desire of the Board that this matter be presented to each of the member banks concerned in such wise as to impress it with its importance and urgency; and the earnest desire of the Board that there be no unnecessary delay in bringing needed correction in the position of the Federal reserve banks through the medium of fuller cooperation of member banks with Federal Reserve policy and methods.

The Federal Reserve System owes it to the country and to itself to put its house in order to meet the credit needs arising from crop harvesting and moving which will begin in about three months, and which will be accompanied by the usual autumnal increase in trade.

The Board is firm in the conviction that the restoration of the Federal Reserve System to a more normal basis of operation should be by the orderly and reasonable process of cooperation between Federal Reserve and member banks."

Among the amendments to the letter was a change in a paragraph which had read as follows: "There still appear to be banks in your district, particularly amongst those which have been borrowers in considerable amount from your Federal Reserve bank, which are still carrying considerable volumes of security loans or investments." In the amendment of this paragraph, among other changes, the words "or investments" were eliminated, and while Mr. Cunningham raised no objection, he stated he was not in full accord with the action as he felt that the volume of investments was really collateral to the question involved in the proposed letter.

Mr. James then moved approval and transmittal of the amended letter, as quoted above.

Mr. James' motion, being put by the Chair, was carried, Mr. Platt voting "no".

After further discussion, upon motion, Mr. Smead was requested to compile data similar to that incorporated in the above letter for other Federal Reserve districts and to prepare drafts of letters to other Federal Reserve banks along the general lines of that being addressed to the Federal Reserve Bank of Philadelphia.

Mr. Platt then read and submitted for the record the following statement:

"In connection with the sending of a further letter to several of the Federal reserve banks in pursuance of the Board's policy of attempting to exercise control over the use of their funds by member banks borrowing from the Federal Reserve System, I desire to place in the Board's records an emphatic protest against the continuance of this method of seeking control without supplementing it, and giving it force, by approving the rate increases, which in the judgment of the directors and officers of the Federal reserve banks of all the financial districts, supported by the unanimous judgment of the Federal Advisory Council, should be made.

In some way the volume of credit used in support of the present speculative mania must be restricted, and the demand for speculative credit must be reduced. Unless this can be done what the Board has called 'the extraordinary absorption of funds in speculative security loans' will continue 'a decisive factor working towards a still further firming of money rates to the prejudice of the country's commercial interests.' It will be useful to bring member banks 'into more effective cooperation with the reasonable purpose' of the system provided the Board has some means of assuring itself that other member banks or individuals will not immediately furnish to the speculators an equal amount of funds. The problem facing the Federal Reserve System at the present time might be stated briefly as follows:

Given call money rates fluctuating from 7 per cent to 20 per cent and time money rates of 8 to 9 per cent, as the decisive factors working towards a still further firming of commercial rates to the prejudice of the country's commercial interests, find some means of reducing these high rates without setting in motion forces that will tend to increase them again in the near future.

There is at present no evidence that would tend to show that these high speculative rates can be reduced by calling loans here and there on the part of a limited number of banks which are reported as most deeply involved in brokers loans and borrowings from the Reserve banks. This policy of concentration on a limited number of banks has resulted in violent fluctuations in the call rates, without indication of any substantial reduction in the amount of Federal reserve credit involved. The

"Federal Reserve System remains 'a sustaining factor in the current volume of speculative security credit' and will remain a sustaining factor even if satisfactory cooperation is obtained from the offending banks unless in the process of cooperation the speculative demand for funds is lessened materially or unless gold imports reduce the amount of Federal reserve credit involved."

Letter dated April 27th addressed to Governor Young by Mr. Frank C. Ball, President of Ball Brothers Company, Muncie, Indiana and Class "C" Director of the Federal Reserve Bank of Chicago, advising that he is heartily in favor of the position which the Board has taken regarding an advance in discount rates and setting forth his opinion that it would be a mistake to interrupt the present prosperous business conditions of the country by attempting to regulate speculation through an advance in rate.

Upon motion, it was voted to refer the above letter to Mr. Cunningham, Chairman of the Committee on District #7, for reply, setting forth the Board's appreciation of Mr. Ball's expressions.

Letter dated April 29th from the Federal Reserve Agent at Chicago, advising of the illness of Mr. White, Assistant Federal Reserve Agent, and requesting approval of the temporary designation of Mr. Clifford S. Young, Examiner, as Acting Assistant Federal Reserve Agent during Mr. White's disability.

Upon recommendation of the Committees on District #7 and Salaries and Expenditures, Mr. Young's temporary designation as Acting Assistant Federal Reserve Agent was approved.

Letter dated April 29th from the Federal Reserve Agent at Chicago, advising that Mr. Frank M. Huston, Manager of his Division of Research and Statistics, who has been on leave of absence with half pay on account of illness, returned to the office on April 1st but has found that he is not in

condition to assume his full duties; the Agent recommending that Mr. Huston again be placed on half pay for a reasonable time, thus giving him an opportunity to find less exacting employment, with the understanding that in the interim he will report to the office and perform such light work as may be assigned to him.

Upon recommendation of the Committee on District #7 and Committee on Salaries and Expenditures, it was voted to approve payment of half salary to Mr. Huston from April 15th to July 1st.

Memorandum dated April 30th from the Fiscal Agent, advising that the Bureau of Engraving and Printing is rendering an additional voucher for $750,000 covering a part of the cost of the preparation of Federal Reserve notes of the small size (Series of 1928) which are now in process of printing and will be delivered during the months of May and June. The Assistant Secretary pointed out that the submission of this voucher is in accordance with the understanding had between the Treasury Department and the recent Conference of Governors, which was formally approved at the meeting of the Board on April 9th.

Upon motion, it was voted to direct the Board's Fiscal Agent to levy the appropriate assessment upon each Federal Reserve bank and to remit the aggregate amount of $750,000 to the Bureau of Engraving and Printing.

Memorandum from Counsel dated April 27th, submitting draft of letter to the Chairman of the Committee on Banking and Currency of the Senate, with regard to S. 485, introduced by him, to amend Section 9 of the Federal Reserve Act and Section 5240 of the Revised Statutes so as to give the Board dis-

cretion in the matter of assessing the costs of examination of member banks; the letter pointing out that a bill introduced last session in the House of Representatives, H. R. 16823, to accomplish the same purpose, would re-enact the whole of each of the pertinent paragraphs of Section 9 and Section 5240, including therein the proposed amendments which would be made by S. 485, whereas S. 485 merely sets out the particular sentences amended. It was stated that either form of bill is satisfactory to the Board and that, under the circumstances, it may be considered advisable to introduce in the Senate a new bill in the form of that introduced in the House at the last session, to be considered in lieu of S. 485.

Upon recommendation of the Law Committee, the letter submitted by Counsel was approved.

The minutes of the meeting of the Board held on April 29th were then read and approved.

REPORTS OF STANDING COMMITTEES:

Dated, April 29th, Recommending changes in stock at Federal Reserve Banks as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

Dated, April 29th, 30th, Recommending action on application for fiduciary powers as set forth in the Auxiliary Minute Book of this date.
Recommendations approved.

The meeting adjourned at 4:15 p.m.

E. M. McCleland
Assistant Secretary.

Approved: Edmund Platt
Vice Governor.