A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, May 1, 1929 at 2:40 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

Telegram dated May 1st from the Assistant Federal Reserve Agent at Philadelphia, advising that the board of directors at a meeting on that date voted to establish a rediscount rate of 6% on all classes of paper of all maturities, effective the first business day following that on which approved by the Federal Reserve Board, provided the Board approves in the near future a similar rediscount rate for the Federal Reserve Bank of New York.

After discussion, Mr. James moved that the Federal Reserve Bank of Philadelphia be advised that the Board has received the advice of the action of the directors of that bank in voting to establish a rediscount rate of 6% provided the Board approves, in the near future, a similar rediscount rate for the Federal Reserve Bank of New York, and that the Board disapproves the action of the Philadelphia directors and has determined the rate of that bank to be 5%.

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

Discussion then ensued with respect to draft of a proposed letter to the Chairman of the Board of Directors of the Federal Reserve Bank of New York, along the general lines of that addressed yesterday to the Federal Reserve Bank of Philadelphia requesting further and fuller cooperation in the Board's policy of preventing the misuse of the discount facilities of the Federal Reserve System.

Following the discussion, upon motion of Mr. James, the letter as amended, was approved and ordered transmitted, Mr. Platt voting "no".

Mr. Platt made the following statement:

"In connection with the sending of a letter to the directors of the New York Federal Reserve Bank complaining of the frequent borrowings of certain of the large city banks, most of which are listed in the letter, the Board fails to take into consideration the fact, first, that these are not country banks borrowing from the reserve pool of their neighborhood or district for the purpose of making speculative loans in another district, but banks located at the financial center which normally and naturally must make loans to brokers and loans on securities. Their borrowings are not occasioned by increase of such loans, which have in fact decreased, but by increased commercial loans. Loans to brokers by the New York banks have decreased 73 million dollars from February 6th to April 24th and loans on securities, which include the loans to brokers, have decreased 150 million dollars, while 'all other' or commercial loans have increased 238 million dollars. The increase of borrowing at the reserve bank in the same period was only 43 millions. The Board fails to take into consideration the further and very essential fact that the indebtedness of the large banks of New York, and to some extent of the banks elsewhere, was in great measure purposely caused by the Board's policy of selling securities for the purpose of obtaining control. The system has little control over credit when the banks, particularly those of the financial centers, are not borrowing, or are borrowing only occasionally, or in small amounts. The security holdings of the System have been steadily reduced for a year or more, with the result that the member banks, particularly the large banks of New York, were forced to borrow. The only alternative would have been a tremendous liquidation that would undoubtedly have had serious results not only on security prices but on business. In sending out such a letter as this, in view of all the circumstances, the Board is laying itself open to the criticism that it desires to force such a liquidation - that it is not willing to have the banks borrow to make good reserves depleted through gold exports or sale of system securities, but desires them to maintain cash reserves. In view of the high gold position of the New York Federal Reserve Bank and of the system to imply a desire for such liquidation is not only unwarranted but hazardous.

No one can tell how literally the member banks listed as 'offenders' might construe the letter, and the plain fact is that the banks of New York City, considered as a group, cannot get out of debt at the Federal reserve bank without drastic calling of loans or liquidation of investments until gold imports or a repurchase of system securities sold puts them out of debt. Under present conditions the only result of the Board's present policy will be, as it has been in the past, the shifting of the borrowing from one bank or group of banks to another or from the banks of one city to those of another - with no substantial results so far as the aggregate amount of Federal reserve credit involved is concerned."

The meeting adjourned at 4:00 p.m.

C. W. McCleland
Assistant Secretary.

Approved:
Edmund Platt
Vice Governor.