A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, June 5, 1929 at 11:00 a.m.

PRESENT: The Chairman
Governor Young
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. Cunningham
Mr. McClelland, Asst. Secretary

PRESENT ALSO: Messrs. McGarrah, Mitchell, Reyburn and Treman, Directors of the Federal Reserve Bank of New York.
Governor Harrison, Federal Reserve Bank of New York.
Dr. Goldenweiser, Director of the Division of Research and Statistics.

Mr. McGarrah referred to the action of the directors of the Federal Reserve Bank of New York at their meeting last Wednesday in not making the recommendation of an increase in rate, which they have made regularly during the past several months, and in addressing a letter to the Board regarding the credit situation, containing a suggestion that further discussion as to the discount rate without an understanding regarding the future program of the System is futile. He stated that the New York committee has come to Washington in response to the invitation extended by the Board, with the idea that the Board may have some suggestion to make as to what the future policy should be.

The members of the New York committee and the Board then engaged in a detailed discussion regarding the present and prospective credit situation; the probable desirability of some relaxation in Federal Reserve credit policy in the near future and the method by which such relaxation could best be accomplished. Members of the New York committee pointed out that the action of the directors at their last meeting in making no recommendation for an increase in discount rate should not be understood to indicate any change in their at-

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titude as to the policy which should have been followed by the System during the past several months, but as an effort to reach a common ground with the Board on the basis of which to consider future policy. Members of the Board indicated that should any program decided upon for the immediate future include some easing in the policy of direct action, that should not be construed as an abandonment of the policy but merely a suspension of its strict application in the interests of the general credit situation.

Near the conclusion of the discussion, Mr. Mitchell outlined his views, as follows, from a pencil memorandum which he had prepared during the discussion and the Chairman suggested that a copy of the memorandum be left with the Board:

"1. Facts clearly indicate the necessity for

(a) An increase in security borrowing between now and July 10.
(b) An increase in agricultural borrowing in the late summer.
(c) A readjustment of credits over July 1 by reason of dividend interest and currency requirements and by reason of the proverbial window dressing that will create a heavy strain especially in New York.

2. All this points to the definite necessity of increased rediscounting of member banks, and if such rediscounts become so excessively large as to unduly tighten the banking system, then such relief must come through some release of Federal Reserve credit, through the purchase of bills, or government securities, or both.

3. If such increase in rediscounts and Federal Reserve portfolios leads to an undue increase in loans either through giving an incentive to security speculation, land speculation, trade inventory speculation or agricultural product speculation, then a rate increase is justified, perhaps several increases with always a willingness to reduce rates as easier conditions justify.

4. This will involve a change of Reserve policy that should be publicly understood but it must be made clear to the country, not through an announcement indicating that the desired goal of the Reserve Board has now been reached and the deduction made by the public that 'the lid is off', but an announcement that the Federal Reserve Board and

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"the Banks are now in accord regarding facts and future program and indicating that the Reserve System will during coming months, express itself through the rediscount rate - always working toward the goal of sound business, sound banking and ultimate ease of credit."

The meeting adjourned at 1:20 p.m.

E. M. McClelland
Assistant Secretary.

Approved:

A. W. Mellon
Chairman.

OK Platt

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