

A meeting of the Federal Reserve Board was held in the office of the Governor on Thursday, August 8, 1929, at 10:15 a.m.

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

The Governor reviewed, for the information of the Chairman, the discussion which took place at the joint meeting yesterday with the Governors of the Federal Reserve Banks. The question of an increase in the rediscount rate of the Federal Reserve Bank of New York as part of a plan to safely meet fall credit requirements was the subject of further discussion, at the conclusion of which an informal canvass indicated that a majority of the members present would give favorable consideration to action of the directors of the Federal Reserve Bank of New York establishing a discount rate of 6%, if coupled with a policy of acquiring bills to the extent necessary to meet fall credit requirements.

Mr. Cunningham then called up the matter which was laid on the table at the meeting of the Board on June 6th, namely, a proposed Regulation "M", Series of 1929, and he moved its adoption in the following form:

"REGULATION M, SERIES OF 1929.

Loans, Discounts or other Credit Accommodations for Member Banks having loans to Brokers or Dealers in Stocks, Bonds or other Investment Securities.

Except with the permission of the Federal Reserve Board, no Federal Reserve Bank shall discount or rediscount any note, draft or bill of exchange 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) from, any member bank which at the time

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- (a) has outstanding loans to any person, firm, partnership, corporation, company or association, whose principal business it is to negotiate purchases or sales of or to purchase, sell or otherwise deal in, stocks, bonds or other investment securities (other than bonds or notes of the Government of the United States) either for his or its own account or for the account of others, or (b) has outstanding loans to or deposits with any other bank, which at the time has outstanding loans to any such person, firm, partnership, corporation, company or association."

After discussion, Mr. Cunningham's motion was put by the Chair and lost, the members voting as follows:

Mr. James, "aye"  
 Mr. Cunningham, "aye"  
 The Chairman, "no"  
 Governor Young, "no"  
 Mr. Hamlin, "no"  
 Mr. Pole, "no"  
 Mr. Miller, "not voting"

The Board then adjourned to the board room where it met again with the Governors of the Federal Reserve banks who had been in session, Messrs. Harding and Fancher being absent.

The following report adopted by the Governors present by a vote of nine to one (Governor Black of Atlanta dissenting) was submitted to the Board. It was reported to the Board that Governors Harding and Fancher, although not present at the meeting, are in accord with the report:

" It is the judgment of the Governors that the demand for increased credit incident to the autumn requirements of crop moving and business should be met, so far as possible, by an increase of the bill portfolio of such banks as care to participate in bill purchases.

The Governors are also of the opinion that this procedure can best and most safely be undertaken, and with least risk of abuse in the use of Federal reserve credit, under the protection of an effective discount rate in the New York district.

They are further led to this conclusion by the expressed belief that an increase in the discount rate of the Federal Reserve Bank of

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"New York would necessitate increases in few, if any, of the other Federal reserve banks during the period of seasonal business demand; and the desire of the directors and officers of all other reserve banks to avoid increases, if possible. It is, therefore, recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate."

The Board recessed until 2:00 o'clock, when it reconvened in the office of the Governor.

The Governor stated that he had been advised over the telephone that the board of directors of the Federal Reserve Bank of New York had voted to establish a rediscount rate of 6% on all classes of paper of all maturities, subject to the approval of the Federal Reserve Board, and to reduce from 5 1/4% to 5 1/8% the minimum buying rate on acceptances.

The Secretary then read for the information of the Chairman the report submitted to the Board this morning at its meeting with the Governors.

Mr. Miller moved that the Board adopt the report of the Governors as the basis of Federal reserve policy during the coming months.

Mr. Miller's motion, being put by the Chair, was carried the members voting as follows:

The Chairman, "aye"  
Mr. Young, "aye"  
Mr. Hamlin, "aye"  
Mr. Miller, "aye"  
Mr. Pole, "aye"  
Mr. James, "not voting"  
Mr. Cunningham, "not voting"

The Governor then moved 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, August 9th.

Governor Young's motion, being put by the Chair, was carried the members voting as follows:



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The Chairman, "aye"  
 Mr. Young, "aye"  
 Mr. Hamlin, "aye"  
 Mr. Miller, "aye"  
 Mr. Pole, "aye"  
 Mr. James, "no"  
 Mr. Cunningham, "no"

Mr. Cunningham submitted the following explanation of his vote:

"When the Federal Reserve Act was instituted it was confidently hoped by the Congress of the United States that the segregation of the country's credit in New York had been most effectively guarded against. Evidently that has not been the case in actual practice as we now have the largest amount of savings throughout the country invested in Stock Market securities in New York that has ever been known. Therefore, to vote to increase the discount rate from five to six per cent at the Federal Reserve Bank of New York at this time, and at the same time retain the five per cent rate so far as possible in the other districts of the System, is but to give additional attraction to the call market rate and to encourage borrowing from the banks in the interior districts at the lower rate, for investment in Stock Market securities, or for making loans on call in New York.

The policy of permitting a higher discount rate in New York, which encourages the segregation of funds at that point, is the sole responsibility of the Federal Reserve Board. And, in my opinion, to approve a raise in the discount rate, primarily to control speculation, at a time when the producers of the country are forced to borrow because of their seasonal requirements, is not acting in the interest of commerce and business, and, consequently, not in harmony with paragraph d, Section 14, of the Federal Reserve Act, which reads as follows:

"To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;"

Therefore, I do not approve of the application of the Federal Reserve Bank of New York for a change in the discount rate from five to six percent, and vote "no".

Coupled with the request for approval of a raise in the discount rate from five to six per cent at the Federal Reserve Bank of New York, was the information that the bill rate had been reduced. I approve of this action on the part of the Federal Re-

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serve Bank of New York and should be pleased to give it my formal approval if the proposal were presented in such form as to permit my doing so without having to vote for an increase in the discount rate at said bank.

I wish to be recorded as "not voting".

At the suggestion of the Governor, action with respect to the minimum buying rate on acceptances established by the directors of the New York bank was postponed until tomorrow, when the entire new schedule of rates will be available.

Mr. Miller then moved that the following statement to the press be made public by the Governor:

"The Federal Reserve Board and Governors of Federal Reserve Banks have been in conference during the past two days and have considered how resources of the Federal Reserve System might best be conserved and made available to meet autumn requirements. The problem has presented difficulties because of certain peculiar conditions. A mutually satisfactory plan has been developed."

Mr. Miller's motion being put by the Chair was carried, the members voting as follows:

The Chairman, "aye"  
 Mr. Young, "aye"  
 Mr. Hamlin, "aye"  
 Mr. Miller, "aye"  
 Mr. Pole, "aye"  
 Mr. James, "not voting"  
 Mr. Cunningham, "not voting"

Mr. Miller then submitted the following statement for the press and moved that its issuance be left to the discretion of the Governor:

"The action taken by the New York Bank today and approved by the Federal Reserve Board, establishing a rate of six per cent on all classes of paper of all maturities, effective August 9, 1929, does not imply any departure from the plan of conserving and making available the resources of the Federal Reserve System

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"to meet autumn requirements, announced at the conclusion of the conference of the Federal Reserve Board with Governors of Federal Reserve Banks on August 7th and 8th."

Mr. Miller's motion, being put by the Chair, was carried the members voting as follows:

- The Chairman, "aye"
- Mr. Young, "aye"
- Mr. Hamlin, "aye"
- Mr. Miller, "aye"
- Mr. Pole, "aye"
- Mr. James, "not voting"
- Mr. Cunningham, "not voting"

The meeting adjourned at 2:45 p.m.

*C. W. Woodard*  
 Assistant Secretary.

Approved:  
*Paul*  
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*A. W. Mellon*  
 Chairman.