

A meeting of the Executive Committee of the Federal Reserve Board was held in the office of the Federal Reserve Board on Saturday, August 10, 1929, at 10:30 a. m.

PRESENT: Governor Young
 Mr. Miller
 Mr. James
 Mr. Cunningham,
 Mr. McClelland, Assistant Secretary.

Mr. Cunningham submitted the following tentative draft of a circular letter to all Federal reserve banks on the subject of "Special Rates on Seasonal Agricultural and Live Stock Paper" on which he did not ask for immediate action. He requested, however, that it be made subject to call at any time the credit situation should develop to a point where increases in the discount rates of other Federal reserve banks and the cost of credit generally might become burdensome in the movement of the Fall crops:

"Prior to 1918 there were in effect at some of the Federal Reserve Banks special rates of rediscount on so-called 'commodity paper'. Lower rates of rediscount for such classes of paper were fixed by the Federal Reserve Banks and approved by the Federal Reserve Board with a view of meeting the seasonal demands for credit facilities in the crop producing districts.

"The Federal Reserve Board believes that the revival of this practice will be especially helpful during the forthcoming crop moving and stock feeding period and accordingly has defined a special class of paper growing out of the movement and marketing of crops and the feeding of live stock which, for convenience, will be called 'Seasonal Agricultural and Live Stock Paper' and as to which the Federal Reserve Board stands ready to approve a rediscount rate of from one-half of one per cent to one per cent below the rediscount rate on other classes of paper, with a view of adjusting the present rate structure so as to facilitate seasonal accommodation to agriculture, commerce and business.

"The Board's definition of 'Seasonal Agricultural and Live Stock Paper' and the conditions of eligibility applicable to such paper are as follows:

Definition. Seasonal Agricultural and Live Stock Paper is defined as a negotiable note, draft, bill of exchange or bankers' acceptance;

"(a) Arising out of the marketing of agricultural products produced during the current year or the proceeds of which have been or are to be used to finance the marketing of such products or the carrying of such products pending orderly marketing; or

"(b) Arising out of the fattening or marketing of live stock or the proceeds of which have been or are to be used to finance the fattening or marketing of live stock.

"Notes, drafts, bills of exchange or bankers' acceptances issued or drawn by cooperative marketing associations composed of producers of agricultural products or feeders of live stock shall be deemed to be included within the above definition if -

"(1) The proceeds thereof have been or are to be used by such association in making payments or advances to any members thereof on account of agricultural products or live stock produced or fattened during the current year and delivered by such members to the association; or

"(2) The proceeds thereof have been or are to be used by such association to meet expenditures incurred or to be incurred by the association in connection with the grading, processing, fattening, packing, preparing for market or marketing of any agricultural product or live stock produced or fattened during the current year and handled by such association for any of its members; or

"(3) The proceeds thereof have been or are to be used by such association in purchasing live stock to be fattened for market by the members thereof or in making advances to any members thereof to enable them to purchase live stock to be fattened for market or for any other purpose in connection with the fattening of live stock by the members of such an association or the marketing of live stock through such an association; or

"(4) Such paper otherwise complies with the above definition."

'Eligibility. To be eligible for rediscount at the special rate authorized to be established for seasonal crop marketing paper, such note, draft or bill of exchange must also:

"(1) Be secured by shipping documents or a warehouse, terminal, or other similar receipt covering readily marketable, nonperishable, agricultural products produced during the current year or by shipping documents or instruments transferring or securing title covering live stock or giving a lien on live stock which is being fattened for market;

"(2) Comply with the requirements of the Federal Reserve Bank as to insurance; and

"(3) Comply with the respective sections of Regulation A, Series 1928, applicable to it.

"Paper which is issued or drawn or the proceeds of which have been or are to be used for speculative holding

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"of agricultural products or live stock as distinguished from the carrying of agricultural products or the fattening of live stock pending the orderly marketing thereof is not eligible for rediscount."

'In authorizing special rates of rediscount pursuant to this letter, it should be understood that this is for seasonal purposes only and such authority may be withdrawn at the conclusion of the forthcoming crop marketing and stock feeding period.

'The Federal Reserve Board is prepared to give prompt approval to special rates for seasonal agricultural and live stock paper and desires the several Federal Reserve Banks to give immediate consideration to the advisability of establishing such seasonal rates in time to be of assistance during the forthcoming crop marketing and stock feeding period. You are requested, therefore, to present this letter to your board of directors at the earliest possible date and request that they take definite action on the question of establishing such special rates in your district. Please give the Board telegraphic advice of the action of your directors on this subject, in order that the Federal Reserve Board may take prompt action thereon.'

A discussion then ensued with respect to bill policy during the coming months and the procedure now in effect in the matter of establishing bill rates.

The Governor stated that he expects to be away early next week, returning Thursday, and that he has made arrangements for Deputy Governor Kenzel, of the Federal Reserve Bank of New York, to come to Washington on Thursday for a discussion of the question of bill rates and policy with the Board.

Mr. Miller submitted the following memorandum as a basis for discussion of a new temporary procedure with regard to the determination of buying rates on bills by the Federal Reserve Board:

"1. The successful application of the general lines of credit policy adopted by the Board at the conclusion of the recent conference with the Governors depends largely, if not mainly, upon the degree of accuracy with which purchases of bills are adjusted to the trend of conditions from week to week and possibly sometimes during short intervals.

2. The matter is one of too much importance, involving as it does the application of a national policy, to be left to the determination of the Reserve Bank of New York even though the great bulk of the bills will originate and be offered there. It should have the joint attention of the

"Federal Reserve Board and such other leading Reserve banks beside New York as can conveniently be consulted.

"3. For this purpose some temporary working arrangement during the remainder of the year seems desirable. Later, when the Reserve System is on a more normal basis of operation, a change in the working arrangement can be made, better adapted to ordinary conditions. That is a matter that might well be considered at the autumn conferences of banks with the Board.

"4. Change of rate being the method by which the flow of bills to the Reserve bank is chiefly regulated, constant attention will have to be given to the rate at which offerings of bills are coming under any given rate, with the view of determining whether they are coming too rapidly or too slowly to satisfy the objectives of the System's autumn policy.

"5. The bill rate should, therefore, be under constant review by the Board, with power in a committee or in the Governor of the Board to authorize and approve changes in buying rates in accordance with the views of the Board or in accordance with sudden changes of conditions which call for immediate action.

"6. It is suggested that the Board should begin the autumn policy by determining the lower limit of the buying rate of bankers acceptances at 5 per cent - this rate to remain in effect until changed by joint action of the banks and Board. Changes in the actual buying rate above the 5 per cent rate could, as suggested above, be made by a committee of the Board or by the Governor alone, should the committee not be promptly available. In order that the committee should be fully informed on conditions suggesting a change of rate, the Governor should keep in close touch with Reserve banks as far as practicable.

"7. Consideration should be given to the authorization of buying rates under 5 per cent in districts outside of New York on acceptances originating within the districts, as long as they have 5% discount rates."

After discussion, it was voted that the above memorandum be discussed at the meeting of the Board on Thursday, but at the suggestion of the Governor, it was also voted that, in the meantime, in the absence of a quorum of the Board, the Executive Committee, or in its absence, the Active Executive Officer of the Board should be authorized to approve changes in bill rates.

The Governor then presented draft of the proposed review of the month, prepared by the Director of the Division of Research and Statistics, for inclusion in the next issue of the Federal Reserve Bulletin.

After discussion, during which certain changes were made in the draft, it was, upon motion, approved as amended.

The meeting adjourned at 11:45 a. m.

C. W. Hill

Assistant Secretary

Approved:

Raymond

Governor