

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, October 29, 1929 at 10:00 o'clock.

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

The Governor reported a telephone conversation last night with Governor Harrison of the Federal Reserve Bank of New York, who informed him that he had been given authority by his board of directors to purchase in the open market, at his discretion, for account of that bank, United States Government securities, without any stated limit. The Governor stated that he advised Governor Harrison that he would bring the matter before the Board this morning and that subsequent information received from Governor Harrison indicated that he was in position to make arrangements for the purchase of approximately \$50,000,000 of securities under the authority granted by his directors, and that it was his opinion and that of some of his directors that the purchases should be made before the opening of the market and announcement of the call rate.

The report of the Governor was noted by the Board and after discussion it was the opinion of the Board that inasmuch as purchases of securities have already been made, there was nothing before the Board at the time requiring immediate action. It was therefore voted that questions arising out of the assumption of responsibility by the New York Federal Reserve Bank, in undertaking this operation on its own account without having first obtained the approval of the Open Market Investment Committee and the Federal Reserve Board, be left for future discussion.

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Mr. Wyatt, the Board's General Counsel, was called into the meeting and discussed the procedure which has been in effect in the matter of System Open Market operations since adoption of the Board's resolutions of March 22, 1923.

Mr. James submitted the following motion, on which he did not request immediate action:

"In order that the public may be fully informed and not misled as to the action and attitude of the Federal Reserve Board, I move that the 'Statement', when published next Thursday, shall show this purchase as having been made by the New York Federal Reserve Bank for its own account and without reference to the Federal Reserve Board."

He also submitted another motion, reading as follows:

"Whereas, the action of the Federal Reserve Bank of New York in purchasing Government securities for its own account, without first securing the approval of the Federal Reserve Board and/or the Open Market Investment Committee, is contrary to the letter and spirit of the so-called 'gentlemen's agreement' under which the Open Market Investment Committee was formed and has functioned during the last five years or more, and

Whereas, it was obviously the intention of Congress, in passing the Federal Reserve Act, that the Federal Reserve Board should have consideration in Open Market operations,

Now, therefore, be it resolved, that Counsel be instructed to draw up and submit to the Board a suitable regulation putting the final approval of Open Market operations with the Federal Reserve Board."

Mr. Hamlin then submitted the following resolution, as a substitute for that last submitted by Mr. James:

"Whereas, a difference of opinion has arisen in the Board as to the expediency of the action of the Federal Reserve Bank of New York, - whether acting on its own initiative or under the Open Market Investment Committee, or both, in purchasing 50 millions of Government securities,

Now, therefore, be it resolved, that Counsel be directed to prepare a draft of regulation covering all pur-

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"chases, in the future, of Government securities by the Open Market Investment Committee or by any individual Federal Reserve Bank."

Mr. Miller moved, as a substitute for the resolutions submitted by Messrs. James and Hamlin:

"That Counsel be instructed to prepare for submission to the Board draft of an Open Market regulation covering purchases and sales of bills, purchases and sales of Government securities and purchases and sales of foreign bills, the latter in accordance with action taken by the Board on July 6, 1927."

The Governor, at this point, talked over the telephone with Governor Harrison of the Federal Reserve Bank of New York, who advised him that because of the situation which exists there today, a special meeting of the board of directors of the bank has been called for 12:30 p.m., and that it would be appreciated if the Board could give prompt consideration to any action which the directors might take. The Board, accordingly, remained in session, discussing the current situation in detail.

At about 3:00 p.m., the Governor again talked with Governor Harrison, who advised him that the discussion of the New York directors was on the subject of a reduction in the discount rate of the bank, but that there is a strong inclination among the directors to do nothing. Governor Harrison stated that there was some improvement in the market situation and that his directors had, accordingly, recessed in order that they might observe developments.

The Board continued in session discussing action which might properly be taken by the System and an informal canvass indicated the majority of the members to be in harmony with a suggestion made by Mr. Cunningham that the

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most helpful thing at the present time would be a reduction in the discount rate of the New York bank to 5%, coupled, however, with an understanding that the System will suspend, for the time being, any purchases of Government securities, pending future developments in the credit situation as a result of the rate reduction, and further consideration and approval by the Federal Reserve Board.

The Governor again talked over the telephone with Governor Harrison of the New York bank, who advised him that the directors of his bank had adjourned without taking any action. The Governor stated he had inquired whether it would be of any benefit if the New York directors had an expression from the Board, which Governor Harrison stated he thought would be most helpful. The Governor also reported that instead of the \$50,000,000 of Government securities which Governor Harrison had stated in the morning he was in position to contract for, which the Governor had assumed would be all of the purchases made, taking everything into consideration, including repurchase agreements, while the New York directors were in session, contracts were made for a purchase of approximately \$115,000,000 of securities during the next two days. The Governor stated that he could not be sure of the figures received over the telephone and could only give them to the Board subject to later corrections or confirmation. The Governor stated that the New York directors will meet again tomorrow after attempting to size up the situation over night, when they believe they will be in better position to act. Governor Harrison advised him, he stated, that his directors have given up any idea of a reduction to 5 1/2%, believing the rate, if reduced, should be put at 5%.

After further discussion, Mr. James moved adoption by the Board, as a definite expression of its opinion, of

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the statement by Mr. Cunningham previously agreed to informally, "that the most helpful thing at the present time would be a reduction in the discount rate of the New York bank to 5%, coupled, however, with an understanding that the System will suspend, for the time being, any purchases of Government securities, pending future developments in the credit situation as a result of the rate reduction, and further consideration and approval by the Federal Reserve Board."

Mr. James' motion, being put by the Chair, was unanimously carried.

It was understood that the Governor would communicate this expression of the Board's views to Governor Harrison for the information of his directors.

The Assistant Secretary then referred to the plan submitted to the Board by the Undersecretary of the Treasury, and approved last July, for reimbursing the 5% redemption funds of National banks in connection with retirement of old size national bank notes by charges to their reserve accounts at the Federal Reserve banks. He submitted a proposed telegram to the Governors of all Federal Reserve banks, advising that the Board will interpose no objection to the Federal Reserve banks making allowances for such charges to reserve accounts of national banks in assessing penalties for reserve deficiencies, in cases where the national banks have not had time in which to cover such charges.

The Assistant Secretary stated that the proposed telegram is approved by the Chief of the Board's Division of Bank Operations and, upon motion, it was also approved by the Board.

The meeting adjourned at 4:10 p.m.

C. W. McCalland
Assistant Secretary.

Approved:

Ray

A. W. Nelson

Chairman.