

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, October 30, 1929 at 10:30 a.m.

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

The Governor reported to the Board a telephone conversation with Governor McDougal of the Federal Reserve Bank of Chicago, who advised him that it will probably be necessary for member banks in Chicago, who are not now in debt at the Federal Reserve bank in any considerable amount, to borrow heavily in connection with demands which are being made upon them. He stated that Governor McDougal inquired as to what the attitude of the Board would be and that he replied, while he could not commit the Board, he thought loans should be made freely and liberally. He stated he would like later to have an expression from the Board in this matter.

He also reported a telephone conversation with Governor Harrison of the Federal Reserve Bank of New York, who advised him that actual purchases of securities by the New York bank yesterday amounted to \$69,000,000. He stated that he read to Governor Harrison the statement agreed upon by the Board and that Governor Harrison advised him that since his directors had authorized the purchase of an unlimited amount of securities, in his discretion, he was not sure what their position would be on the Board's suggestion that purchases be suspended for the time being.

He further stated that he gathered from Governor Harrison that the major operation contemplated by the New York bank was the purchase of government securities, inasmuch as any action to be effective must be taken quickly,

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and that he advised Governor Harrison this would probably lead to the eventual promulgation of a regulation on the subject on the part of the Board, which Governor Harrison stated he thought would be unfortunate if put into operation at this time.

The danger in the present situation, the Governor stated, is that some member banks in New York were approaching the point yesterday where they felt they should refuse to take over further security loans being called by interior banks and others, although a majority have pursued a very liberal lending policy which, if continued, will necessitate heavy borrowings at the Federal Reserve bank. He stated that the purchases of Governments by the Federal Reserve bank served to change the attitude of some of the members, who realize that to aid the situation they will have to borrow at the Federal Reserve bank.

Governor Harrison also informed him, he stated, that he would probably recommend a reduction in the discount rate at the regular meeting of the board of directors tomorrow unless circumstances developed today requiring such action, and that if a reduction is made by his directors it will be a full percent.

Governor Harrison also inquired as to the attitude of the Board on a reduction in the bill rate and the Governor stated he advised him that although the Board has approved the minimum effective rate of the bank, which now stands at 5%, it has not yet acted on the minimum authorized rate established by the New York directors of 4 $\frac{3}{4}$ %.

The Governor stated that he also advised Governor Harrison that he would not hesitate about lending to the member banks. He stated to the Board that he would go farther and purchase Government securities liberally using any resource that the System has in an attempt to minimize the effects of conditions that may develop.

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Messrs. Platt, Hanlin and Miller stated that they were in agreement with the position of the Governor that the Federal Reserve banks should be prepared to pursue a liberal policy in extending credit necessary in their judgment to protect and support conditions in the existing emergency, and that in their opinion it would be well to advise all Federal Reserve banks accordingly.

Mr. Cunningham stated that without changing his views respecting the proper use of Federal Reserve credit, he was of the opinion that the Federal Reserve banks should meet all demands for rediscounts made on them in the present situation which, in their judgment, are based on business requirements, rather than to attempt to meet an abnormal demand for credit by Open Market purchases of securities, the use of the proceeds of which is very largely uncontrollable and which might well be deferred for future consideration if and when the Board has fuller information concerning the credit situation in general.

Mr. James stated that he hesitated to express an opinion on the basis of the indefinite information before the Board as to conditions which exist in various parts of the country. He stated that he was inclined to believe, however, that the resources of the Federal Reserve System should be conserved, as far as possible, to meet more serious demands which may be made upon it later. He expressed the opinion that any action of the Board urging the Federal Reserve banks to lend freely and liberally might give an impression of fear on the part of the Board and accentuate existing conditions. He stated that he thought it would be better to defer any expression until inquiry as to its attitude is made of the Board.

Mr. Miller expressed the opinion that the situation which has developed in the country's leading markets is of sufficient urgency to require concentration

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of the Board's thought and efforts on how the Federal Reserve System may function most effectively in helping to prevent a worse situation and to justify the Board in postponing action on questions of procedure with regard to open market operations in the future, without prejudice to its rights and authority under the Federal Reserve Act. He also expressed the opinion that Federal Reserve credit put out through open market purchases at this time could probably be recovered without great difficulty later on if the situation clears up and that course should seem desirable. This opinion was concurred in by Mr. Platt and Mr. Hamlin.

At the conclusion of the discussion, the Governor was requested to get in touch with the heads of the several Federal Reserve banks and make inquiry regarding conditions in the respective districts.

At 12:15 p.m., the meeting recessed and reconvened at 3:30 p.m., the same members being present as attended the morning session with the exception of Mr. Miller.

The Governor reported that the situation in New York seems improved in some ways, but in other respects is not so good. He stated that the directors of the New York bank had an informal meeting at luncheon and decided to do nothing today with respect to the rate, nor did the bank find it necessary to purchase any more Government securities during the day. He stated, however, that according to the best figures available the New York banks were forced to take over \$400,000,000 of security loans yesterday from interior banks and others, and that the development seems to be at a more rapid rate today, although the banks have not had to borrow in this connection. He also advised the Board that the stock market will open at noon tomorrow for three hours

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and will be closed on Friday and Saturday in order to afford some relief to brokers and their employees, and an opportunity to catch up with the volume of business. He stated that this announcement on the ticker today seemed to have no adverse effect. Governor Harrison advised him, he stated, that the directors at the meeting tomorrow will consider a reduction in the discount rate but it is possible that as things now stand it may be decided to make no change immediately.

He then stated that, in accordance with the request of the Board this morning, he had communicated with the Governors of the several Federal Reserve banks and reported their expressions as follows.

Governor Fancher advised that there was some little pressure on member banks in that district, their rediscounts having increased about \$20,000,000, although there is nothing acute in the situation at the moment and there is no special currency demand. Conditions are being watched carefully and have been discussed with the directors of the bank, who arrived at the conclusion that if called upon the bank should lend liberally.

Governor Norris reported that conditions are satisfactory in the Third District at the moment, with no particular demand for rediscounts or currency, although inquiries have been received which appear to indicate that there may be some back-up of loans in the district, covering local stocks disposed of by New York banks when they reduced margin requirements yesterday. He stated that rediscounts may go up \$30,000,000 or so in the next few days. He feels that in conditions of the kind that exist the Federal Reserve bank would have to be liberal in meeting the demands.

Governor Calkins made a very optimistic report, advising that there

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is no currency demand in the Twelfth District and that rediscounts have gone down heavily, probably because of the calling of loans in New York by banks and others. He does not look for anything acute and stated that if anything should develop it would come from outside sources. Referring particularly to the slump in the stock of the Transamerica Company, he stated that preparations for such a development had been made by those interested for many months and the local situation can be taken care of. He further stated that if demand for rediscounts should appear, that bank would be inclined to lend liberally.

Governor Martin reported that he sees no bad effects in the Eighth District, in which the banking situation generally is satisfactory, although some demands are being made on banks by customers desiring to remove accounts from brokers' offices. The situation in Louisville, he stated, has not been good for some time but in St. Louis everything is in good shape. The Federal Reserve bank feels it should be liberal if demands should back up in that district. No currency demand exists.

Governor Geery reported that the Twin City Banks, which have been heavy borrowers for some time due to the grain situation, reduced their indebtedness \$5,000,000 in the last few days, some of which is traceable to the calling of loans in New York. He does not see anything troublesome in the present situation, the only reaction being a sympathetic movement in local stocks. Country banks are rapidly liquidating their indebtedness at the Federal Reserve bank. No special currency demand exists.

Governor Harding reported that the reserve position of the Boston bank is good and that there seems to be nothing unusual in the situation in that district.

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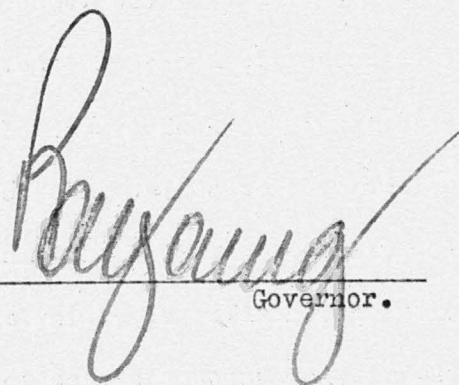
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The Governor also reported that upon inquiry all of the Governors with whom he talked would not be inconvenienced by postponement of the Governors' Conference which is scheduled to convene on November 13th.

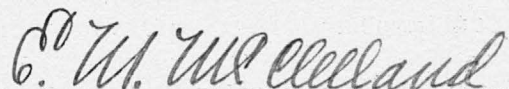
He further reported receipt of a letter from Senator Allen of Kansas, requesting that the Board hear a delegation from Wichita, regarding the establishment of a branch there of the Federal Reserve Bank of Kansas City, on Tuesday, November 19th. Inasmuch as this is the date on which the Federal Advisory Council will hold its next meeting, the Governor stated he would advise Senator Allen and suggest that the hearing be held instead on the 21st of November.

The meeting adjourned at 4:00 o'clock.

Approved:



Governor.



Assistant Secretary.