

A meeting of the Federal Reserve Board with the Open Market Investment Committee was held in the office of the Federal Reserve Board on Tuesday, November 12, 1929 at 2:20 p.m.

PRESENT: Governor Young

Mr. Platt

Mr. Hamlin

Mr. Miller

Mr. James

Mr. Cunningham

Mr. Noell, Asst. Secretary

Mr. McClelland, Asst. Secretary

PRESENT ALSO: Messrs. Harrison, Harding, Norris, Fancher  
and McDougal, Members of the Open Market  
Investment Committee.

Mr. Burgess, Acting Secretary of the Open  
Market Investment Committee

Dr. Goldenweiser, Director of the Division  
of Research and Statistics

Mr. Smead, Chief of the Division of Bank  
Operations.

The Governor stated that the Open Market Investment Committee has been in session during the morning and has submitted the following report, which was read by the Assistant Secretary:

"Since the meeting of the Committee on September 24, the credit situation has changed abruptly. There has been a severe liquidation of credit against securities under circumstances which constitute a serious threat to business stability at a time when there were already indications of a business recession. This seems clearly to indicate the need of having the Federal Reserve System do all within its power toward assuring the ready availability of money for business, at reasonable rates.

"In view of these circumstances and for the purpose of avoiding any increase, and if possible facilitating some reduction, in the total volume of member bank discounts, the Committee believes that the System should be prepared to increase the open market holdings of the Federal reserve banks through the purchase of bills if they can be acquired in sufficient amounts without interfering with their present desirable distribution, and if not, through the purchase of Government securities.

"It is believed by the Committee that this may be done with safety in the interest of business without the risk that funds so put out by the Federal reserve banks would be used to stimulate any abnormal or unnecessary expansion of member bank credit.

"The Committee also has in mind the fact that present conditions may possibly develop to the point where, as an emergency measure, in the in-

"Interest of maintaining banking and business stability, it may be necessary quickly to purchase large amounts of Government securities in order to avoid any undue stringency in credit.

"The Committee therefore recommends that the present limit of \$25,000,000 per week on the purchase of Government securities be removed and that the Committee be authorized in lieu thereof to purchase not to exceed \$200,000,000 of Government securities for account of such banks as care to participate, in order that it might be empowered and prepared to make purchases of Government securities as and when it may seem to be necessary for the purposes, or in the contingencies outlined above, but only with the understanding that there be a careful current review by the Federal Reserve Board and the Committee of the consequences of any such purchases that may be made, and that another meeting with the Board be held at any time it may seem desirable to the Board or the Committee, and that in any event there be another such meeting not later than the first week in January."

A detailed discussion of banking and credit conditions ensued, during which Mr. James left and the Secretary of the Treasury joined the meeting, the latter taking the Chair.

The attention of the members of the Open Market Investment Committee was called to the fact that the Federal Advisory Council will hold its next meeting in Washington on Tuesday, November 19th, and they were advised that the Board believed the views of the Council should be obtained before any System policy is definitely decided upon.

A canvass of the members of the Open Market Investment Committee disclosed that in requesting authority to purchase not to exceed \$200,000,000 of Government securities for account of such banks as care to participate, the members did not have in mind that such purchases should be made under any circumstances but rather that the Committee should be in position, in the exercise of its judgment, to make such purchases should conditions warrant.

Governor Harrison pointed out that the authority granted following the meeting of the Committee on September 24th, to purchase not to exceed \$25,000,000

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of securities a week would permit the purchase of approximately \$200,000,000 between now and the first of the year but that it was believed desirable that the Committee should not be limited to the purchase of \$25,000,000 at any one time.

There was some discussion as to the advisability of a further reduction in rates by the Federal Reserve banks in lieu of purchases of Government securities and Governor Harding advised the Board that the directors of his bank, at their last meeting, considered reducing the rate of that bank to 4 1/2%. He discussed the matter with members of the Board, some of whom pointed out the undesirability of a reduction in the discount rate without a corresponding reduction in the bill rate.

There was also discussion as to the desirability from the standpoint of the Board of its being consulted at the time purchases of securities are made.

The members of the Open Market Investment Committee then left the meeting.

Mr. Hamlin moved that the authority asked for by the Open Market Investment Committee is hereby granted, subject to change on reasonable notice, on the understanding, however, that as far as practicable, in the absence of acute emergency, the Committee shall exercise the authority hereby granted in consultation with the Governor of the Board.

Governor Young moved, as a substitute for Mr. Hamlin's motion, that the report of the Open Market Investment Committee be taken under review.

Mr. Miller moved, as a substitute for the motions of Mr. Hamlin and



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Governor Young that the Board approve and transmit the following letter to the Chairman of the Open Market Investment Committee:

"The Federal Reserve Board has had under consideration the report of the Open Market Investment Committee, dated November 12, and notes that the Committee's recommendations relate, (1) to the more permanent features of open market policy and, (2) to a possible emergency operation.

"The Board feels that the general situation is not sufficiently clarified for the System to formulate and adopt a permanent open market policy at this time. The Board has that under continuous consideration and will be glad to confer further with the Committee as we approach more nearly steadied credit conditions.

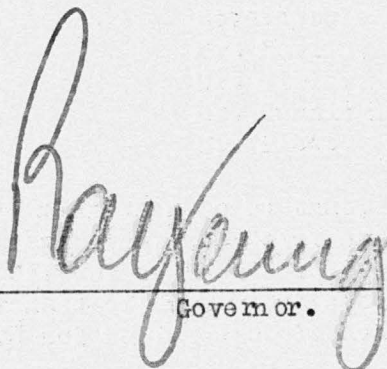
"The Board fully appreciates the possibility that a situation may arise speedily that will call for an open market operation on the part of Federal reserve banks by the purchase of Government securities. To this end the Board has arranged to act promptly on the application of the Committee or any Federal Reserve bank to purchase securities in a sudden contingency. It has authorized the Governor, should the Board not be immediately available, to act on its behalf in giving approval in an emergency to purchases. In the event that an emergency should arise with such suddenness and be so acute that it is not practicable to confer with the Governor, the Board will interpose no objection to a purchase operation being undertaken, with the understanding, however, that prompt advice of such purchase be furnished the Board.

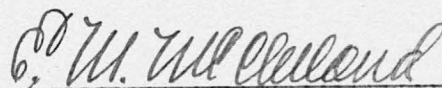
"This action of the Board supersedes the authority which was granted to the Open Market Investment Committee on September 24, 1929, to purchase not to exceed \$25,000,000 per week of Government securities."

After discussion, action on the above motions was deferred.

The meeting adjourned at 4:45 p.m.

Approved:

  
Governor.

  
Assistant Secretary.