A meeting of the Open Market Policy Conference with the Federal Reserve Board was held in the office of the Federal Reserve Board on Tuesday, January 28, 1930 at 10:45 a.m.

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

PRESENT ALSO: Dr. Goldenweiser
Mr. Smead
Messrs. Paddock, Harrison, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, Talley and Calkins, members of the Open Market Policy Conference.
Mr. Burgess, Secretary, Open Market Policy Conference.

Governor Young stated that "this is the first meeting of the Open Market Policy Conference attended by representatives of all of the Federal Reserve banks and that no formal procedure has as yet been set up. He referred to the policy adopted by the System in November and comments which had been received from various sources as to its continuance or change. He stated that the directors of the Federal Reserve Bank of New York have requested the Board to approve a reduction to 3 1/2% in the bank's minimum rate for purchases of bankers acceptances with the idea of reducing the effective buying rate perhaps 1/8% to 3 7/8%. He stated that the matter has been permitted to go over pending discussion at this meeting, as has the question of a further reduction in discount rate which has been also under consideration at the New York bank."

At Governor Young's suggestion, Dr. Goldenweiser then reviewed briefly business conditions, member bank and Federal Reserve credit developments, money rates, gold movements and the foreign exchange situation.

Following Dr. Goldenweiser's statement, the Governor requested the individual members of the Open Market Policy Conference to express themselves on the advisability of a cautious program of ease through the bill rate and also on the question of a possible further reduction in the discount rate.

Governor McDougal, after expressing the attitude of the Chicago board which has had under consideration the lowering of the discount rate, said he believed this action might be taken in the near future if the directors could agree that it would be a stimulus to legitimate business. In regard to the proposed reduction in the bill rate, he stated he could not quite see the propriety of such action at the moment but that he certainly would not favor any action which would tighten the situation.

Governor Norris expressed the opinion that the program adopted in November has been accomplished and that no further easing should be effected. He stated he would not favor a reduction in the discount rate at this time, although he would approve a small reduction in the bill rate to keep the System in the bill market and prevent liquidation of the entire System portfolio and not for the purpose of increasing holdings.

Mr. Burgess pointed out that the directors of the New York bank would not expect to ease the credit situation through the bill rate but rather prevent its hardening with the approach of spring. He stated he did not believe a 3 7/8% bill rate would impede the distribution of bills although it would take over some of the dealers' portfolios and prevent a too rapid decline in the System's holdings. He stated that in the opinion of the New York directors with the present volume of rediscounts a reduction in the discount rate would be logical.

Governor Harrison reviewed briefly the policy adopted in November. The policy was made effective in December, he stated, through purchases of

Government securities and in January through the seasonal return flow of currency. He expressed the opinion that before discussing future mechanics it should be determined whether the policy is to be continued. He then presented the usual report of the Secretary of the Open Market Investment Committee and a preliminary memorandum prepared for consideration at this meeting and the latter was read by the Assistant Secretary of the Board.

Just before the reading of the memorandum, the Secretary of the Treasury joined the meeting and took the Chair.

Deputy Governor Paddock stated that the situation in the First District has cleared up better and more rapidly than was expected but there are still some collateral loans which should be liquidated. He stated his bank would like to see a policy of marking time for the present until something more definite develops, and then probably begin with a reduction in the bill rate.

Governor Fancher stated that he thought the System policy should be to keep money fairly comfortable and that he would favor a reduction in the bill rate. With regard to a reduction in the discount rate, he stated his bank is still at 5%, the directors feeling that some pressure should be continued a while longer to assist liquidation and though it may later - toward the end of February - reduce to 4 1/2%, he thought it would stay at that rate for some time.

Governor Talley stated that up to this time his bank has been in favor of the execution of the System policy, but he would not now approve a reduction in the bill or discount rates. He expressed the opinion that the System can err more readily at the present time by easing than by doing nothing, and stated he would be opposed to any specific movement to ease.

Governor Martin expressed the opinion that the results sought in the

November policy have been obtained. He stated he thought a reduction in the discount rate right now would be a movement in the wrong direction as he does not believe business is suffering because it cannot get money at reasonable rates and a reduction might retard further liquidation. He also stated that if a reduction in the bill rate would result in a fairly immediate lowering of the discount rate, he would not favor that at the present time.

At one o'clock, the meeting recessed and reconvened at two-thirty o'clock, Mr. Pole being absent.

Governor Black expressed the opinion that a policy of ease should be continued. He stated that his bank would favor a reduction in the bill rate, and, if it had an opportunity, would probably reduce its own discount rate of 4 1/2%, in an effort to obtain reasonable rates for business.

Governor Geery stated that his bank maintains a 5% discount rate, which is below the commercial rate in the district. If a reduction in the bill rate were to be made to a point where it would interfere with the normal distribution of acceptances, he stated he would be opposed to it, but he thought it would be a wise move if it were simply a step to conform to the market and take on as outright holdings such bills as are now carried under repurchase agreements.

Governor Seay expressed the opinion that the System should maintain the present situation rather than ease further. He said he thought the System should proceed cautiously in order to see that hardening of rates does not result from the spring demands and to prevent any hardening it might be well to act through the acceptance rate or possibly by small purchases of Government securities, although he would dislike very much to see the latter done.

Governor Calkins expressed the opinion that the objective of the

System's policy, as he understood it, seems to have been achieved and there is no occasion to go farther at the present time. He stated that if it should later appear desirable to bring about a condition of greater ease it should be done through some slight variation in the bill rate, as the System can then reverse itself without embarrassment, which it cannot do as regards the discount rate.

Governor Harrison then stated that the present minimum bill rate of the New York bank is 4% and that the directors feel they should have some leeway to adjust their effective rate downward as well as upward. He stated that the immediate effect of a reduction of 1/8 of 1% in the buying rate would be to convert some of the bills held under repurchase agreement into outright holdings and avoid pressure on the money market incident to a transfer of Federal Reserve credit from bills into rediscounts. He pointed out that unless the seasonal reduction in bills is minimized the System's discounts may advance in an amount totaling the bill reduction and the spring demands for additional credit.

Considerable discussion then ensued regarding the present procedure in the establishment of bill rates. At its conclusion, the Governor suggested that the Board withdraw from the meeting and that the Committee endeavor to work out a formal report and recommendation for submission to and consideration by the Board later.

Accordingly, the joint meeting adjourned at 4:00 o'clock.

E. M. McClelland
Assistant Secretary.

Approved:

R. A. Young
Governor.