A further meeting of the Open Market Policy Conference with the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, January 29, 1930 at 12:10 p.m.

PRESENT: Governor Young
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
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 Norris, who acted as Chairman of the Open Market Policy Conference during its morning session, presented the following report to the Board which was read by the Assistant Secretary:

"The Open Market Committee, including informally the Governors or Deputy Governors from eleven of the Federal reserve banks, has considered the report of the secretary of the Open Market Committee, the preliminary memorandum, and the data submitted by the Federal Reserve Board and by representatives of the several reserve banks, and has reached the following conclusions upon the matters therein referred to and upon the specific questions asked by the Federal Reserve Board.

"The facts appear to be:

1. The panicky feeling has subsided.
2. A business recession has taken place, the extent or duration of which is not yet possible to determine.
3. Money has been made available to commerce and industry at more reasonable rates.
4. Liquidation is progressing in an orderly fashion.
5. Rediscounts have been reduced to under $450,000,000.
6. However, there is a large volume of security loans in member banks which they are anxious to get reduced.
7. Liquidation has been slower in country banks than in the city banks.

"Under these circumstances it is the judgment of the Committee that no open market operations in Government securities are necessary at this time either to halt or to expedite the present trend of credit.

"The Committee believes however, that it would have an unfortunate effect upon business if the demand for additional credit for spring business, con-

"currently with the running off of the present bill portfolio of the System should result in a hardening of rates.

"It therefore recommends that the minimum buying rate for bills, fixed by the Federal Reserve Board, be reduced so that the Federal reserve banks may have such flexibility in their bill operations that the present portfolio may be not only maintained but may if necessary be increased to such extent as to avoid the hardening of rates which might result from a seasonal demand for additional reserve credit."

At the request of members of the Board, Governor Norris made a statement along the following lines explaining the recommendation of the Conference:

"There were differences of opinion regarding the matter before the conference, the representatives of two of the banks feeling it is desirable to have a distinct easing of rates and that it would be advisable for the System to do anything likely to have that effect. The majority opinion was that what has already been done has set in motion a trend which should result in lower rates. Between a reduction of discounts and large purchases of securities, and a reduction of rates to business there is always a lag and that lag is likely to be greater at this time because the appetite of the bankers has been whetted during recent months and they are slower about coming down. There is every reason to anticipate that the reduction will occur so that it is believed the current is set in the direction of easier rates.

"We (speaking here for the majority opinion) feel we should not interfere in that movement either in the direction of halting it or attempting to expedite it, unless the situation clearly calls for some action and we cannot see that it does. On the contrary, we feel it is better that the situation should clear up further, that the extent and duration of this recession should be more ascertainable than at the present moment, and that it is inexpedient for us to exhaust at the present time any part of our ammunition in an attempt to stimulate business when it is perhaps on a downward curve and we had better wait until we feel that we have reached a stable basis where the administration of some stimulant may have a distinct and good effect rather than to exhaust our ammunition now in what may be perhaps a vain attempt to stem an inevitable recession. Therefore, the recommendation is made that we see no necessity for open market operations in Government securities at this time either to halt or to expedite the present trend of credit. The majority of the Committee is not in favor of any radical reduction in the bill rate or radical buying of bills which would create an artificial ease or necessitate a reduction in the discount rate. If that reduction comes about naturally from further liquidation or reduced demand, all well and good, but we do not feel that we should make any active effort to bring that about. Therefore, we have limited this recommendation to the maintenance of the present portfolio and such increase as may be necessary, "not to avoid some increase in discounts, but if any conditions likely to bring about a hardening of rates arise, then we believe that hardening should be prevented by increasing the bill portfolio.

"We do not believe that in the present temper of the public there is any danger of a revival of active speculation in the market.

"We do not favor any such operations in bills as will necessitate a reduction in the discount rate, but if it should come as the result of the general trend of events, that is a matter between the bank and the Board. The seasonal demand during the spring may not be as large as usual and may not reach more than $75,000,000 and that probably could be taken care of by an increase in rediscounts without hardening of rates. A greater demand might have a hardening effect which should be prevented by the purchase of bills, but we distinctly feel that no operation in bills should be undertaken for the purpose of either forcing or facilitating a reduction in discount rates by any bank."

Governor Harrison in further explanation stated that the Conference felt the System should let the present downward trend of rates run along and do nothing which would artificially either stop the decline or force it down more rapidly. (See minutes January 31, 1930.)

Governor Norris stated the feeling was that any temporary peak in the downward trend should be levelled off through the bill market.

Governor Martin stated that he cast the only vote against the report because he was fearful of results which might come from any artificial action which, in his opinion, would be justified only in an emergency. He stated he would regret to artificially accentuate easy money at this particular time as he does not believe it is necessary, and feels that if the recommendation of the Committee should be followed out and a reduction made in the bill rate it would mean as a matter of course, based on experience, a later reduction in the rediscount rate.

After some further discussion of the interpretation of the report, during which Governor Norris left the meeting, a recess was taken at 1:10 p.m.

The meeting reconvened at 2:55 p.m., all who attended the morning session being present except Governors Harrison and Norris.

Further discussion then ensued regarding the advisability of a reduction at this time in the effective buying rates of bills and the probable results of such a reduction.

At the conclusion of this discussion, reference was made to the recommendation of the last Conference of Governors and Federal Reserve Agents that the Board's regulations be amended to permit the calculation of reserves of member banks as at the close of business the previous day. The Governor stated that members of the Board, particularly himself, were not sure just what benefits it is expected member banks would derive from such an amendment and, at his suggestion, it was understood that the Governors upon returning to their respective banks would furnish their views on this point to the Board in writing.

Reference was then made to the recommendation of the recent Conferences that a committee be appointed for the purpose of making a thorough study of the question of member bank reserves. Inquiry being made by Governor Young as to the probable personnel of the committee, discussion ensued during which it was agreed that the committee should be appointed on behalf of the Federal Reserve banks by the Chairman of the Governors' Conference after consultation with the Governor of the Board. It was agreed that any expenses of the Committee should be paid by the Federal Reserve banks and that should the services of members of the Board's staff be desired on the Committee, the necessary arrangements will be made by the Board.

The meeting adjourned at 4:45 p.m.

E. M. McClelland
Assistant Secretary.

Approved:

R. A. Young
Governor.