

A meeting of the Federal Reserve Board with the Open Market Policy Conference was held in the office of the Federal Reserve Board on Thursday, May 22, 1930, at 11:00 a.m.

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

PRESENT ALSO: Messrs. Harrison, Norris, Fancher, Seay
Black, McKay, Martin, Geery, Talley,
and Calkins, members of the Open
Market Policy Conference.
Dr. Goldenweiser, Director of the Division
of Research and Statistics.
Mr. Smead, Chief of the Division of Bank
Operations.

Governor Harrison stated that during the separate session of the Open Market Policy Conference its formal organization was considered with the result that he, as representative of the Federal Reserve Bank of New York, was chosen as Chairman, and Deputy Governor Burgess of the New York Bank as Secretary. He stated that the Executive Committee will be composed of the representatives of the Boston, New York, Philadelphia, Cleveland and Chicago banks for a period of one year, and that a policy of rotation among the Federal Reserve banks will be followed thereafter in the selection of the Committee.

Governor Harrison reported that before taking up the discussion of open market policy, the Conference discussed the question of its functions and jurisdiction.

It was the sense of the meeting, he reported, in response to the specific inquiry made of it, that in view of the full discussion of business and credit conditions had at this meeting there is no need for holding the usual spring

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conference of Governors.

He stated it was also the sense of the Governors present that the minimum buying rate for purchases of bankers acceptances approved by the Federal Reserve Board should always be at a point which will give flexibility in the bill operations of the Federal Reserve banks.

The Conference also voted, he stated, to go on record that recommendations as to the discount rate of any Federal Reserve bank or Federal Reserve banks are not within its proper province and the directors of any Federal Reserve bank must be free at any time to change the discount rate of their bank, subject only to the review and determination of the Federal Reserve Board.

With regard to the suggestion of one of the Federal Reserve banks, reported yesterday by Governor Young, that it be permitted to purchase Government securities for the purpose of supplementing its earnings, Governor Harrison reported that it was the sense of the Conference that the supplementing of income of a Federal Reserve bank is not a proper reason for the purchase of Government securities.

With regard to the policy to be pursued to meet fall credit requirements, Governor Harrison reported that it was the sense of the Conference that in view of the uncertainties as to credit conditions it is too early at this time to formulate definite plans as to the means to be used to provide Federal Reserve credit to meet autumn seasonal requirements.

He stated that the Conference heard a report by him with regard to the foreign situation, based upon his recent trip abroad, and after reviewing the domestic situation both with respect to business and credit conditions, adopted the following:

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"The Conference has considered a preliminary memorandum reviewing domestic business and credit conditions and has discussed at length the present trends in world trade, commerce and commodity prices. Particular consideration was given to the rapidly declining volume of our export trade and its probable relation to the decline in commodity prices in this country.

"It appears to the Conference that conditions in business, agriculture and trade are still seriously depressed, not only in this country but evidently throughout the rest of the world as well. It is the sense of the Conference that these conditions merit continuous careful observation by the Federal Reserve System in order that the System will be prepared to act promptly in the event that conditions further develop in such a way as to make action seem advisable.

"In the present circumstances, however, it does not appear to the Conference that any affirmative recommendation as to Open Market operations is advisable just now. But it is the sense of the Conference that if the situation so develops as to require an Open Market operation by the System the members of the Conference will be prepared to reconvene or else, if a meeting of the whole Conference is not practicable, to act promptly on recommendation of its Executive Committee."

After some brief discussion, regarding the above report, Governor Young referred to communications which have been received recently from certain of the Federal Reserve banks regarding open market policy and requested that the Governors of the banks in advising the Board of their views in the future state whether or not they believe that a meeting of the Open Market Policy Conference should be held for the purpose of considering their suggestions or views.

Governor Harrison stated that if any Governor having such a recommendation to make would send a copy of his letter to the Board to each other Governor, either directly or through him as Chairman of the Conference, the entire Conference would be acquainted with the views of the individual members.

Mr. Miller called attention to the considerable decline in the volume of Federal Reserve credit. During recent weeks it has been running well below \$1,000,000,000. Taking the monetary gold stock of the country and the outstanding volume of Federal Reserve credit together, the aggregate of these

is less than at any time since 1924. He raised the question whether this did not involve a contraction of the basis of fundamental credit, whose effects would be felt not only in the United States but throughout the Western World.

Keeping in mind all factors in the present situation, he expressed the opinion that the volume of Federal Reserve credit outstanding should be maintained at a thousand millions of dollars, and that when it showed a tendency to run below this, the volume should be built up by open market purchases. The policy of maintaining such a volume of credit, irrespective of demands for Federal Reserve credit, would prevent liquidation in credit and business from becoming too drastic and thus working an unnecessary and undesirable contraction.

Mr. Miller's suggestion was discussed, both pro and con, but no action was taken.

Governor Harrison stated that he knew the directors of the New York Bank would look with favor upon an early purchase of Government securities in the event there was not some immediate change in the present outlook about which they have much concern.

Conditions in the bond market were discussed in this connection and the question of whether or not the market would be revived by security purchases on the part of the Federal Reserve banks.

Some members of the Conference expressed the view that there is no shortage of investment money but the reluctance of investors to purchase bonds is due to lack of confidence because of the character of issues which have been brought out during the past few years.

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When held of the Executive, a special meeting of the Federal Reserve Board was held in the office of the Governor on Thursday, May 22, 1930, at 12:30 p.m.

The meeting adjourned at 12:30 p.m.

Mr. Tolson
Mr. Harbo
Mr. Miller
Mr. Boardman
Mr. Clegg
Mr. Glavin
Mr. Ladd
Mr. Nichols
Mr. Rosen
Mr. Tracy
Mr. Carson
Mr. Egan
Mr. Gurnea
Mr. Hendon
Mr. Pennington
Mr. Quinn
Mr. Nease
Miss Gandy

E. W. McClelland
Assistant Secretary.

Approved:

Henry Young
Governor.