A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Monday, June 23, 1930 at 3:15 p.m.

PRESENT: The Chairman
Vice Governor Platt
Mr. Hamlin
Mr. James
Mr. Cunningham
Mr. Pole
Mr. McClelland, Asst. Secretary

PRESENT ALSO: Governor Fancher, Federal Reserve Bank of Cleveland

The Assistant Secretary read the following report submitted by the Committee on District #4:

"Your committee met this morning with Secretary Mellon, Governor Fancher and Deputy Governor Fleming representing the Federal Reserve Bank of Cleveland, and Mr. Truthan representing the architects for the proposed Pittsburgh Branch building. The Cleveland representatives submitted tentative plans for a seven-story limestone exterior building, which plans are attached and made a part of this report. They also submitted architects' estimates on the proposed building amounting to $868,263 for the building proper and $580,560 for vaults, permanent equipment and furnishings and fixtures, both including architects' and contractors' fees.

"H. J. Res. 227 authorizing the construction of the Pittsburgh building limits the total expenditure for the building proper to $875,000, within which the estimate submitted by Cleveland comes, and provides that the character and type of building to be erected, the amount actually to be expended in the construction of said buildings, and the amount actually to be expended for vaults, permanent equipment, furnishings and fixtures, shall be subject to the approval of the Federal Reserve Board.

"In view of existing conditions in the building trades and the markets for building materials, the Cleveland Building Committee is of the opinion at this time that it would be far more economical to proceed with the construction of the Pittsburgh building on a fee basis rather than to let a general contract. If it follows this procedure the Cleveland Bank would secure from the general contractors a guaranteed upset price with a savings clause which will come within the Congressional authorization, including fees.

"Your committee concurs in this opinion and recommends that the Board approve the character and type of building which the Federal Reserve Bank of Cleveland proposes to erect, and that the Bank be authorized to proceed with the preparation of final plans and specifications and to secure bids, with the understanding, however, that all bids, before acceptance, will be submitted to the Board for final approval in accordance with the terms of the Congressional authorization.

"Inasmuch as it is the desire of the Cleveland Bank to begin work at the earliest possible date, because of material and labor conditions, it is recommended that the Board authorize its Executive Committee to approve any bids submitted which are within the estimates submitted today."

After some discussion, during which Governor Fancher reviewed in a general way the plans of the Cleveland Bank for the Pittsburgh building, particularly its desire to take advantage of the present favorable building conditions, upon motion by Mr. Hamlin, the following resolution was adopted:

"WHEREAS, by H. J. Resolution No. 227, 71st Congress, approved April 14, 1930, the Federal Reserve Bank of Cleveland was authorized by Congress to enter into contracts for the erection of a building for its Pittsburgh Branch on the site then owned, provided the total amount expended in the erection of said building exclusive of the cost of vaults, permanent equipment, furnishings, and fixtures, shall not exceed the sum of $875,000, and provided also that the character and type of building to be erected, the amount actually to be expended in the construction of said building and the amount actually to be expended for the vaults, permanent equipment, furnishing and fixtures for said building shall be subject to the approval of the Federal Reserve Board:

"WHEREAS, the Federal Reserve Bank of Cleveland has submitted to the Federal Reserve Board tentative plans for the erection of a building for its Pittsburgh Branch in accordance with the authority granted by the said H. J. Resolution No. 227, 71st Congress, and has also submitted estimates for the construction of the said building aggregating the amount of $1,448,823 and these plans and estimates have been approved by the Building Committee of the Federal Reserve Bank of Cleveland;

"WHEREAS, the said aggregate amount of $1,448,823 consists of (1) the amount of $580,560 which it is estimated will be expended for vaults, permanent equipment, furnishings and fixtures for said building, and (2) the amount of $868,263 which it is estimated will be expended for the erection of the building proper;

"WHEREAS, the amount of $868,263 which it is estimated will be expended in the erection of said building exclusive of the cost of the vaults, permanent equipment, furnishings and fixtures is less than the sum of $875,000, the maximum amount authorized by said H. J. Resolution No. 227, 71st Congress;

"WHEREAS, in the opinion of the Federal Reserve Board the segregation of items entering into the cost of the building proper as distinguished from those entering into the cost of the vaults, permanent equipment, furnishings and fixtures, as set out in the said plans submitted by the Federal Reserve Bank of Cleveland, is correct in so far as it is reasonably possible to determine;

"THEREFORE, BE IT RESOLVED, that (1) the character and type of building which the Federal Reserve Bank of Cleveland proposes to erect,

"and (2) the amount of $868,263 which it is estimated will be expended in the construction of said building, exclusive of the cost of the vaults, permanent equipment, furnishings and fixtures, and (3) the amount of $580,560 which it is estimated will be expended for the vaults, permanent equipment, furnishings and fixtures, for said building be and they are hereby approved by the Federal Reserve Board and the Federal Reserve Bank of Cleveland is therefore authorized to proceed with the preparation of final plans and specifications and to secure bids, with the understanding, however, that all bids, before acceptance, will be submitted to the Board for final approval in accordance with the terms of the Congressionsl authorization."

Upon motion, it was then voted to authorize the Executive Committee to approve any bids submitted by the Federal Reserve Bank of Cleveland which are within the estimates submitted today.

The Chairman then left the meeting and Messrs. Harrison, Paddock and Norris, members of the Executive Committee of the Open Market Policy Conference, and Mr. Burgess, Secretary of the Conference, entered the room.

In response to Vice Governor Platt's inquiry as to whether or not the Executive Committee of the Open Market Policy Conference had any recommendation to make to the Board, Governor Harrison stated that when the advisability of an open market operation was considered some two weeks or so ago it was recommended that the System buy Government securities not to exceed $25,000,000 a week for two weeks, with the understanding that the situation would then be reviewed, and this meeting had been called with a view of carrying out that contemplated review. He stated that the Committee had gone over credit conditions as they now see them and had considered a preliminary memorandum submitted by the Chairman, and a majority of the Committee - four out of five - had voted that the Committee should not recommend any open market operation at this time.

He also stated that as he understands the procedure approved by the Board there is no recommendation to be made by the Committee to the Board,

but that the Committee meets for the purpose of making recommendations to the whole Conference, which recommendations would then be submitted to the Board. The Committee is making, he stated, a report to the Board that the Committee as a whole voted to make no recommendation as to an open market operation now.

Mr. Platt distributed copies of Governor Calkins' letter of June 16th setting forth reasons why the Federal Reserve Bank of San Francisco did not participate in the $50,000,000 of Government securities recently purchased. He also pointed out that the System's holdings of Government securities at the present time are within $50,000,000 of the peak on June 14, 1922 when they were $630,000,000 but that at that time the discounts of member banks amounted to $414,000,000, while on June 18 they were only $207,000,000. He also stated that he had talked with Governor Young over the telephone this morning and that the latter had stated that he was doubtful as to what his position would be if any recommendation were made to the Board. Mr. Platt then inquired as to whether or not the individual members of the Committee had any comments to make.

Governor Harrison stated that he represented the minority in the Committee's vote that no recommendation be made at the present time, that he represented unanimous views of the New York directors as well as his own and the officers of the New York bank that it would be preferable to continue purchases of Government securities up to, say, $25,000,000 a week for another two weeks, largely on the theory that business and commodity prices have not improved and that a good part of the difficulty at the present time is lack of purchasing power in various parts of the world which are not in a position to purchase or take up surplus commodities off the markets of the world.

Because of this deficiency in buying power, prices have declined and this is reflected through decreased export trade in the principal countries which have products to export, such as England and America. With this in mind, everything possible should be done to revive buying power for our surplus products through the export of long time capital to those parts of the world where purchasing power has been curtailed. Purchases of Government securities, he said would do no harm and might do some good in reviving the bond market. There is no danger at the moment of speculative revival and past experience has always shown that whenever the System is buying Government securities the bond market becomes more active and stronger and, therefore, not being aware of any danger or disadvantages in the purchase of Governments at this time and having many precedents that the purchase of Governments is helpful to the bond market, the New York bank feels the System should make such purchases in the hope that they will facilitate through the bond market a better distribution of capital to points where buying power is now seriously curtailed.

He stated that for these reasons the New York directors last Thursday expressed the view that the System should buy Government securities not to exceed $25,000,000 per week for the next few weeks, but since the majority of the Executive Committee of the Conference does not favor purchases at this time no recommendation is being made by the Committee.

Governor Fancher stated that he favored the purchase of the $50,000,000 of Government securities purchased several weeks ago following the meeting here at that time and felt that the Federal Reserve credit then in the market perhaps should not be withdrawn. The opinion seemed to be, he stated, that bills were running off and perhaps the amount in which the System's holdings of bills were declining should be put back through the purchase of Government

securities. On that basis, he said, he favored the purchase of securities and the amount purchased had about offset the decreased holdings of bills. He stated that member bank borrowings have fluctuated up and down. Rates have been further reduced at New York and some of the other banks, and it seems to him that the System could not do much more to help a bond market. Money is extremely easy and banks are finding a problem in how to place the surplus money which they have on hand. He expressed the opinion that they will first place it in short time securities and will finally go to bonds for the sake of earnings, which is going to revive the bond market.

Governor Norris stated that the majority of the Executive Committee of the Open Market Policy Conference are substantially in agreement with the letter from Governor Calkins. The feeling of the Committee is, he said, that the principal characteristic of the present period of depression is falling commodity prices, and that an analysis will reveal the fact that in the case of most of the commodities in which price reductions have been most marked there is a specific reason having nothing to do with credit conditions or interest rates. He called attention to the fact that there is no evidence of any great accumulation of goods in this country, but that on the contrary inventories on the whole are lower than they were last year. The trouble, he said, is not so much over-production of goods, as over-development of productive capacity. He stated that he can not see any evidence that any responsible concern in this country has any difficulty in getting capital for any legitimate purpose and that there is a very serious question whether it is one of the functions of the Federal Reserve System to develop or foster the bond market, but granted that it is, the bond market which it is desired to foster at this time is a market for foreign rather

than domestic bonds and he believes the reason there has been such a falling off in the volume of foreign issues in this country has not been due to credit conditions but to the doubt that has been aroused by public statements on the subject.

Governor Norris further stated that at the meeting of his board of directors last week they had a long discussion on this subject. He said he had called the attention of his Board to the fact that the discount rate of the Federal Reserve Bank of Philadelphia was out of line with that of the Federal Reserve Bank of New York and out of line with the two guides which have always been accepted in the past - the acceptance rates and the open market rate for money. He stated that of the seven members present, five felt that no action which they could take either as regards open market operations or a reduction in the discount rate would have any effect whatever on the situation which is one for which the Philadelphia Bank is not responsible and can not help, and the only effect of a reduction in the discount rate would be to increase the margin of profit for those banks which are chronic borrowers at the Federal Reserve bank and would make it more difficult for the well managed banks to show any earnings at all. For these reasons, he stated, it was voted to make no change in the discount rate of the Philadelphia bank.

Deputy Governor Paddock stated that at his directors' meeting last Wednesday the whole situation was gone over and on the question as to whether or not the Boston bank would follow the Federal Reserve Bank of New York by a reduction in the discount rate, the directors voted against a reduction. In the purchase of Government securities, he stated, he thought the feeling was just about the same and the majority of his directors

would rather see things go along about as they are for a short time as there is no pressure for borrowing in the Boston District and money is available at reasonable rates.

Governor Harrison stated that he did not want to leave the thought that there is any feeling in New York different from that expressed by the other members of the Committee that there is an adequate supply of short time credit available for business. That is not the difficulty today, he stated, and it has not been for months, the difficulty being a bad distribution of short and long time money. What his directors have had in mind, he said, has not been not so much to create more short time money but to facilitate a market through which long time capital could be distributed to those points where there is an admitted shortage of buying power. A plentiful supply of short time money at low rates is merely a means of facilitating this.

Governor Norris then stated that the other members of the Executive Committee of the Open Market Policy Conference can not bring themselves to believe that a further purchase of Government securities would help, but feel that such purchase would be an interference with the natural effect at this time and would not be productive of any good, and might be embarrassing at the time when business starts to pick up, at which time the System would find itself with a large amount of Government securities and low discount rates. If it then began to mark up rates and sell securities, or both, it might check an incipient revival and if not would be accused no doubt of doing so or operating in that direction. He stated that as the majority of the members

of the Executive Committee could not see any benefit to be derived from affirmative action, it was felt that no action is the safest course.

The meeting adjourned at 4:15 p.m.

E. W. McCleland
Assistant Secretary.

Approved:

Edmund Platt,
Vice Governor.