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, September 25, 1930, at 3:45 p.m.

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

PRESENT ALSO: The Members of the Open Market Policy Conference, with the exception of Governors Seay and Bailey, of the Federal Reserve Banks of Richmond and Kansas City, which were represented by Deputy Governors Peple and Worthington;
The Chairmen of all Federal Reserve Banks;
Mr. Strater, Secretary, Governor's Conference;
Mr. Stewart, Secretary, Federal Reserve Agents' Conference;
Doctor Goldenweiser, Mr. Smead, Mr. Wyatt

Governor Harrison, as Chairman of the Open Market Policy Conference, stated that the Conference had discussed for the better part of the day general credit and business conditions both in this country and abroad and the System policy most advisable under those conditions. Consideration was given, he stated, to a preliminary memorandum prepared in New York as a report of the Chairman, reciting facts and conditions as they appear, but drawing no conclusions, without a survey of which it would be impossible to satisfactorily report the deliberations of the Conference. There being no objection, he read the preliminary memorandum to the meeting.

He reported the Conference, in order to crystallize sentiment, discussed possible courses of System action (1) Adoption of a policy tending to make rate conditions easier, (2) A policy which tends to make them firmer or (3) A policy the purpose of which would be to maintain them about where they are. The Conference, he said, was in agreement that the System should not endeavor to follow an easier money policy and, with possibly two exceptions, that a policy looking toward the firming of rates should not be adopted at this time. He then read the following report, which was adopted by the Conference with nine affirmative votes, two negative and one Governor not voting:

"The Open Market Policy Conference has considered the preliminary memorandum submitted to it by the Chairman and has reviewed at length general business and credit conditions.

"In view of the continued severe depression in business activity, trade and commodity prices in this country, as well as the rest of the world, it is the sense of the Conference that it would be inadvisable for the Federal Reserve System to permit any further easing or any firming of present money rates because of seasonal requirements, gold exports, or other causes; and that it should be the policy of the System so far as possible, to maintain the present easy money rate position in the principal money centers, and that the Executive Committee should be authorized, if necessary, to supplement bill purchases by the purchase of Government securities, in the event that the seasonal demand for Federal Reserve credit, gold exports, or other factors should tend unnecessarily to tighten present money rates.

"In the event that any conditions should develop which would require sales of securities to execute this policy, the Executive Committee should, of course, have authority to make sales of securities. It is understood, however, that if the Committee should have to buy or sell more than $100,000,000 of Government securities to maintain the status quo, new authority must be procured in accordance with the prescribed procedure.

"It is recommended that there should be another meeting of the Open Market Policy Conference early in January, unless a change in conditions suggests to the Board or the members of the Conference the advisability of an earlier meeting."

The Governor then asked if the dissenting or non-voting members of the Conference desired to make a statement or discuss the report.

Governor Talley, who stated he was the non-voting member, said that he realized that between now and January 1st is not the time to change the situation in the direction of firmer money rates and that there would probably be no occasion for additional purchases of securities by reason of the overages in reserves which exist at the present time, but that he did not think there was sufficient recognition or appreciation of the latter fact on the part of the nine who voted for the report or a willingness to let these excess reserves be absorbed before further action is taken by the System. He also referred to the anxiety as to whether bills will be offered to the System and asked if the feeling of some that the System is not getting a sufficient amount of bills is not a sign that the market does not want additional money, provided there is a sufficient amount of floating bills so that the market can get money if it wants to do so.

Governor McDougal, as one of those voting in the negative, reviewed the developments of the past year in the direction of easier money conditions to a point where the banks in the cities are possessed of an enormous amount of surplus funds. He stated that the seasonal demand which usually comes has not yet developed, that the probability is that unless something happens to change the outlook the demands through December will not be so great and that in view of these conditions he thinks the System has given the present extremely low money market an opportunity to show what it will do. He stated that he voted against the resolution for the reason that he does not believe the System should inject any more of the artificial into the money situation; that things should be allowed to take their natural course rather than to attempt to formulate a policy which it is expected will be in force for a period of three months. He stated that he would not be afraid if rates should firm a little, that if they went too far the System could take action to stop the trend and that he did not think it was good policy to maintain the present status of rates for three months or any definite period of time.

Governor Calkins stated that although he voted in the negative he was not out of sympathy with the general purport of the report. However, he pointed out an inconsistency in that the Open Market Policy Conference has been authorized since September 3rd, to buy not to exceed $50,000,000 of Government securities, if necessary to prevent any firming in existing money rates, and now has reached the conclusion that it does not wish to ease the market, but recommends in its report that it be given authority to buy up to $100,000,000. He stated, however, that he was not in agreement with Governor McDougal as to the expediency of taking action that might tend to firm money at this moment. He stated that there is every reason to anticipate the usual seasonal increase in the demand for credit and in his opinion the System should go through that period, the remainder of the year, before taking any action to bring about a less easy condition.

Governor Harrison referred to the authority granted the Open Market Policy Conference on September 3rd and stated that the request at that time for authority to purchase up to $50,000,000 was indicative of nothing other than the practical problem of getting authority pending a meeting of the whole conference. He stated that in suggesting at the present time that the limit be fixed at $100,000,000 the Conference does not anticipate using either $50,000,000 or $100,000,000, but felt that the procedure was at best cumbersome and that as long as the policy had been agreed upon, if approved by the Board, adequate authority should be given to the Executive Committee rather than necessitate the reconvening of the whole conference in the fall if it were determined that purchases should be made in excess of $50,000,000. The recommendation of the conference, if approved by the Board, he stated, would define an objective, give the Executive Committee authority to execute the policy and provide means for anyone interested in checking up to call for a meeting to review the situation prior to January, when another meeting should be held in any event.

Governor Norris expressed his own feeling, and perhaps that of some of the others voting in favor of the report, that while he would like to see the recommendation look a little more than it does toward the firming of rates, he did not care to take the responsibility of saying that any action in the direction of firming should be taken just at this time, when we are in the midst of the crop moving season and with the usual seasonal demand for currency during the few months ahead.

Mr. Cunningham raised the question, in connection with the suggestion that the seasonal demand for Federal reserve credit this year will probably not reach the heights of previous years, of whether the funds injected into the market by the Federal Farm Board and Intermediate Credit Banks for the carrying and marketing of commodities should not be given consideration and, if added to Federal reserve credit, would not bring the total increase in seasonal credit to its normal proportion.

Governor Young referred to an investigation made by him last year which developed that loans by the Farm Loan Board and Intermediate Credit Banks have the same status as loans by non-member banks so far as the demand for Federal reserve credit is concerned.

Mr. Goldenweiser explained that the autumnal increase in the demand for Federal reserve credit is brought about entirely by the increased demand for currency during that period of the year and that indications are that the demand for credit during the current year will be less because the demand for currency has fallen off due to the lower level of wholesale and retail prices, employment and payrolls.

Dr. Miller then raised the question of the advisability of further purchases of Government securities by the Federal reserve banks on the basis that their removal from the general markets would force banks and others to seek new investments, thereby creating a turnover in the money market, which at present he described as being in a state of stagnation. He stated that such action might eventually lead to the injection into new enterprise of funds which could not otherwise be employed.

Governor Harrison stated that this phase of the matter had not been considered by the Open Market Policy Conference which had, as stated in its report, voted against any action in the direction of further ease at the present time. He expressed the opinion that additional funds put into the market by the Federal Reserve System under existing conditions would only add to the burden of excess reserves now carried by member banks and that while it would probably strengthen the bond and mortgage markets and encourage borrowers of long time money, it would be fraught with a great many dangers attendant to a policy of inflation.

Dr. Miller pointed out that when you have a condition of extreme idleness in the money market you have an involuntary deflation and stated that although he was not advocating a program of the sort, he had raised the question in order to ascertain whether its possibilities had been canvassed by the Open Market Policy Conference.

The Governor pointed out that if additional credit were forced into the market through further purchases of Government securities, a limitation would be put on the tendency toward further ease by gold exports, offsetting to the extent of such exports the purchases of securities made by the System.

He then referred to present conditions in the bond market which, he stated, appears at the present time to be functioning in a normal way, with no signs of undue inflation but with conditions easy enough to permit the placing of a good volume of bonds for construction purposes.

Governor Norris then reported a conversation with a representative of a leading financial house who, in reply to an inquiry as to whether easier money rates would stimulate the bond market, replied that he would regret to see the Federal Reserve System buy any more securities or endeavor to put interest rates any lower. Governor Norris stated that the firm in question was of the opinion that no corporation needing capital today has any difficulty in getting it and a 1/2 per cent or 1 per cent reduction in rate would not induce further use of money.

At the conclusion of the discussion, upon advice from the Chairmen of the Governors' and Federal Reserve Agents' Conferences that they were ready to report to the Board, it was decided to hold a joint conference of Governors and Federal Reserve Agents with the Board at 10:30 o'clock tomorrow morning.

The meeting adjourned at 5:00 p.m.

E. M. McClelland
Assistant Secretary.

Approved: Eugene Meyer
Governor.