

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Thursday, July 9, 1931, at 11:00 a. m.

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

The Governor reported that he had talked over the telephone yesterday with Mr. Harrison, Governor of the Federal Reserve Bank of New York, who advised that propositions involving very large credits to Germany, amounting to from £100,000,000 to £200,000,000, are under discussion. The Governor stated that he expressed the opinion to Governor Harrison that care should be taken not to indicate an attitude of approval toward such proposals, stating that there is considerable difference between extending huge credits in the present situation which seemed to him to be a larger and more fundamental one than in granting temporary relief. He stated that Governor Harrison seemed to be in accord with these views, as indicated by the following cablegram addressed by him last night to the Governor of the Bank of England. The Governor also reported that he understands that the views expressed in the cablegram are substantially agreed to by the Governors of the Bank of England and the Bank of France:

"1. At various times during the past week you and I have discussed on the telephone the possibility that the Reichsbank might ask (A) for a renewal of the present central bank credit and/or (B) for an enlargement of that credit.

"2. But I was surprised and concerned to learn this afternoon over the telephone of the huge amount which after talking with Luther you now feel may be necessary to hold the situation.

"3. While you know I am sympathetic with taking any reasonable steps that may really be necessary to avoid a collapse in Germany and perhaps throughout central Europe as well, and while furthermore I agree with the general principle that if another credit is to be raised for this purpose it should be adequate rather than inadequate, nevertheless I should reiterate what I told you on the telephone: that it would be difficult if not impossible for us to consider taking any steps looking toward

"further credit accommodation here unless we have some most definite evidence that the Reichsbank has itself first done everything within its power effectively to protect its own position.

"4. I am confident that the principal New York banks who are creditors of Germany have maintained their lines at about the amounts outstanding at the time of the President's announcement. In some case, indeed, I know that those lines have been actually increased in that interval. On the whole, the evidence available here indicates pretty clearly that much of the loss of foreign exchange by the Reichsbank during recent weeks must be due to a flight of German capital which it seems to me might well have been limited or restricted through a firmer credit policy of the Reichsbank.

"5. Rationing of credit is, of course, a drastic and disagreeable procedure, but it has been applied effectively in Germany in the past without proving to be fatal. On the contrary, in each other instance it has been most helpful in repatriating German capital and in checking further outflows of funds and I cannot see why it might not be equally effective at this time if applied with equal force.

"6. So, on the whole, I personally do not feel free at this time to advocate any further credit here until I am convinced that the Reichsbank has done all that it has in its power to do to protect its own situation and this I think should be done immediately.

"7. In other words: Is it not a mistake for any of us seriously to be talking about extending further credits, which at best would be difficult to raise, until we know that they have first taken firm corrective steps on their own part and until we have had an opportunity to see their effect?

"8. I realize the importance of the time element, but the fact that the statement day comes on next Tuesday does not really seem controlling because after all in this great emergency is there any reason why they should not show a deficiency in their proportion with a consequent increase in the bank rates as provided by the bank law.

"9. Indeed, this, together with strict rationing may well turn the tide not only by checking a further flight from the reichsmark but by drawing back exported capital. At least it seems reasonable that they should make the effort, hard as it may be, before rightfully expecting the cooperation of the central banks or private banks in maintaining present credits or extending further credits, which would only facilitate a continued flight of German capital.

"10. I shall, however, continue to think along the lines we discussed on the telephone today and call you tomorrow before you leave London. You are perfectly free to show this to Luther who, I am sure, will realize full well the friendly and helpful spirit in which it is sent."

A canvass of the members of the Board present, indicated that they were in favor of an attitude of caution on the part of the Federal Reserve System in connection with the present suggestions of the extension of large additional credits to Germany.

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The Governor then brought up the telegram received from the Governor of the Federal Reserve Bank of New York under date of July 2nd and quoted in the minutes of the meeting on July 7th, on which the Board has not yet acted.

The matter was further considered and, after a full canvass of the question of participation, it was, upon motion, voted that in order to insure prompt action should it become necessary in the absence of a quorum of the Board at the time the present or an amended proposal might come up for action, the Governor and such members of the Board as might be present in Washington be authorized to act for and on behalf of the Board, it being understood that any further participation with European central banks in the organization and extension of credits to central banks should conform to the character, safeguards, and other details established or developed in connection with previous participations in central bank credits by the Federal Reserve System.

The Governor then presented for the record, a telegram addressed to him under date of July 8th by the Governor of the Federal Reserve Bank of New York, quoting two cablegrams received on that date from the President of the Reichsbank, with regard to the guaranty syndicate being formed by German enterprises under the leadership of the German Gold Discount Bank.

The telegram, having been previously brought to the attention of the members of the Board individually, was formally noted.

The Assistant Secretary then presented various matters which were considered by the Board and acted upon as follows:

Letter dated July 8th from the Governor of the Federal Reserve Bank of New York, advising that the credit to the Reichsbank has now been availed of to its full extent, the Reichsbank having drawn an additional \$8,000,000 on July 6th, in which the Federal Reserve System's participation was \$2,000,000; the letter also advising that the second credit to the National Bank of Hungary is being drawn on and that on July 8th the Federal Reserve Bank of New York

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credited \$3,000,000 to the account of the Bank for International Settlements to be used for the purchase of bills from the National Bank of Hungary.

Noted.

Letter dated July 8th from the Governor of the Federal Reserve Bank of New York confirming his verbal advice with regard to further purchases of Government securities for System account, reported by Governor Meyer at the meeting on July 7th; the letter also advising that it is proposed to purchase an additional \$30,000,000 of Government securities gradually over the next three weeks, it being the belief of the Executive Committee of the Open Market Policy Conference that these purchases will be helpful psychologically in indicating a continuous policy on the part of the Reserve System to do whatever is in its power toward making effective continued imports of gold, and will serve in a measure to keep some surplus reserves in the banks of principal cities and thus maintain a continuous pressure for the free employment of funds.

Noted.

Telegram dated July 9th from the Chairman of the Federal Reserve Bank of Richmond, advising that the Board of Directors, at its meeting today, made no change in the bank's existing schedule of rates of discount and purchase.

Without objection, noted with approval.

Report of Committee on Salaries and Expenditures on list submitted by the Federal Reserve Bank of St. Louis of employees for whom the directors approved leaves of absence with pay on account of illness during the month of June, where the total of such absences since January 1, 1931, has exceeded thirty days; the Board's Committee recommending approval of the salary payments involved.

Approved.

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Report of Executive Committee on letter dated July 2nd from the Federal Reserve Agent at Chicago, requesting authority, because of the unusual amount of bank examination work being done by his office, to use the following employees of the Federal Reserve Bank of Chicago as assistants to the regular examiners:

- Minor B. Smith
- Henry B. Tesmer
- Claude Hollowell
- Roy Peterson
- Ernest H. Anderson
- Frank A. Ford
- George Moore

Upon recommendation of the Executive Committee, it was voted to approve the designation of the above named employees as special assistants to examiners.

Memorandum from Counsel dated July 7th with regard to the matter referred to the Governor with power on May 28th, namely, disposition by the Atlantic National Bank of Boston of the stock held by it in the Atlantic Corporation; Counsel's memorandum submitting draft of letter to the Federal Reserve Agent at Boston advising that the Federal Reserve Board will offer no objection to the holding of the stock of the Atlantic Corporation in accordance with the trust indenture of August 1, 1930, as altered and modified by a proposed supplementary indenture; the letter also requesting the Federal Reserve Agent to secure from the Atlantic National Bank, for the files of the Board, a certified copy of the supplementary indenture as approved by the board of directors and executed by the bank.

Upon motion, the proposed letter was approved.

The meeting adjourned at 11:30 a. m.

Approved:

*Ernest H. Anderson*  
Governor.

*C. W. McCallister*  
Assistant Secretary.