

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, July 14, 1932, at 10:30 a. m.

PRESENT: Governor Meyer  
Mr. Hamlin  
Mr. Miller  
Mr. James  
Mr. Magee

Mr. Morrill, Secretary  
Mr. McClelland, Assistant Secretary  
Mr. Harrison, Assistant to the Governor  
Mr. Wyatt, General Counsel  
Mr. Goldenweiser, Director, Division of  
Research and Statistics  
Mr. Smead, Chief, Division of Bank Operations

PRESENT ALSO: Messrs. Young, Harrison, Hutt, Fancher, Seay, Black, McDougal, Martin, Geery, Hamilton, McKinney and Calkins, Members of the Open Market Policy Conference.

Mr. Burgess, Secretary, Open Market Policy Conference.

Mr. Burgess, Secretary of the Conference, distributed to those present copies of a preliminary memorandum prepared by the Chairman of the Conference and the secretary's report on operations in the System account since the meeting of the Conference held on May 17, 1932.

Governor Meyer then referred to the exchange situation during recent weeks and the events leading up to the completion of arrangements for the repatriation of the remainder of French balances in this country, which he stated was regarded as an encouraging factor both in this country and abroad.

He also referred to the fact that increased currency demands during the last several months, together with gold withdrawals which have been made from the country, might have had disastrous effects except for the open market policy which has been pursued by the Federal Reserve System. He pointed out that further increases in currency in circulation occurred

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as a result of the banking disturbances in Chicago about two weeks ago, but that during the past week a substantial return of currency took place. He stated that, according to reports received from all parts of the country, the open market operations of the Federal Reserve System have not resulted in an increased extension of credit to business, and that the benefits of the System policy had in a large measure been offset by currency demands and gold withdrawals, but, in his opinion, it could not be characterized as having failed.

He then reviewed the legislative situation, discussing the status of the so-called Glass-Borah amendment to the Home Loan Bank Bill, which has been adopted by the Senate of the United States as a substitute for the Goldsborough bill passed in the House of Representatives, and which would extend the circulation privilege, for a period of three years, to United States Government bonds bearing an interest rate of 3 3/8% or less, of which there are slightly over \$3,000,000,000 in existence.

He also discussed the so-called Glass amendment to the unemployment relief bill, which would authorize Federal reserve banks, with the approval of the Federal Reserve Board, in unusual and exigent circumstances, to discount for individuals and corporations notes, drafts or bills of exchange of the kinds now eligible for discount for member banks.

He also referred briefly to the encouragement to the business situation which is offered by the recent rise in prices of certain agricultural commodities.

During Governor Meyer's statement, the Secretary of the Treasury joined the meeting.

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Governor Harrison then stated that he agreed with Governor Meyer that the System policy had not resulted in failure, but that, on the contrary, there had been no waste of the credit made available, all of which had served some useful purpose, either to meet currency demands or gold withdrawals, to reduce member bank indebtedness, or to create excess reserves which now amount to approximately \$150,000,000. He expressed the opinion that, with the removal of the obstacles which have heretofore existed, the System is in the best position it has been during the last few years to test the theory of open market purchases and that he did not believe the policy should be reversed, but should be continued to a point where the excess reserves of the member banks of the System would amount to \$250,000,000, the goal originally set. The program, as he saw it, included three major steps; first, concerted action looking toward the discontinuance of bank failures and the restoration of confidence, both of the public and of bankers; second, the continued purchase of Governments by the System with a view to maintaining excess reserves of member banks at around \$250,000,000; and, third, more effective action toward commercial credit expansion through the banking and industrial committees which have been organized in the various districts. This program, he stated, contemplated no large gold withdrawals and no revival of hoarding during the period of its operation, and, in reply to an inquiry as to the action which would be taken by the System in the event of such developments, he stated that he felt another meeting of the Open Market Policy Conference would be necessary to determine the policy which should be followed under the conditions then existing.



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A general discussion then ensued during which the other members of the Open Market Policy Conference expressed their individual opinions, and, in some cases, the views of their boards of directors or executive committees. Continuance of the program was favored by some; others were of the opinion that while the purchases for System account should not be discontinued, they should be curtailed and added effort should be made to increase the flow of credit now available into business uses; while some felt that the System had followed the program of open market operations as far as is necessary or justified. It was also suggested that the maintenance of excess reserves at Federal reserve banks at about the present level of \$150,000,000 might be a desirable policy rather than to attempt to increase such reserves and maintain them at \$250,000,000.

At 3:45 p. m. the members of the Board and its staff withdrew from the room and the Open Market Policy Conference continued in session. At about 5:00 p. m. the Board reconvened in separate session and the Governor presented the following resolution which in the meantime had been adopted by the Open Market Policy Conference.

"Moved that the Executive Committee be authorized to buy Government securities to the extent necessary to maintain excess reserves of member banks at approximately 200 million dollars, total purchases to be limited to the amount previously authorized by the Open Market Policy Conference which is 207 million dollars. For the guidance of the Executive Committee it was the sense of the conference that except in unusual or unforeseen circumstances purchases should not exceed 15 million dollars a week, but for the next four weeks should be not less than 5 million dollars a week."

Upon motion, the action of the Open Market Policy Conference as set out in the resolution was approved.

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Thereupon the meeting adjourned.

Oester Mouill  
Secretary.

Approved:

W. J. Hughes  
Governor.