A meeting of the Executive Committee of the Federal Reserve Board was held in Washington on Monday, February 27, 1933, at 11:00 a. m.

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

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. Paulger, Chief, Division of Examinations.

The Committee considered and acted upon the following matters:

Telegraphic reply on February 25, 1933, approved by five members of the Board, to a telegram of that date from Deputy Governor Rounds of the Federal Reserve Bank of New York, requesting authority for an advance, in accordance with the provisions of section 10(b) of the Federal Reserve Act, to the Raritan Trust Company, Perth Amboy, New Jersey, in the amount of $22,000, for a period of ninety days, with interest at the rate of 5% per annum, and on the security of miscellaneous customers' collateral notes and unsecured notes with a margin of at least 25%; Deputy Governor Rounds stating that the bank is in urgent need of additional funds to meet withdrawals of deposits. The reply stated that the Board authorizes the advance subject to the terms and conditions recommended.

Approved.

Letter dated February 25, 1933, to the Federal Reserve Agent at St. Louis, approved by three members of the Board, referring to the application of Mr. W. F. Huthsteiner under the provisions of the Clayton Anti-trust Act, for permission to serve as a director of the Tell City National Bank, Tell City, Indiana, and as officer and director of the

Citizens National Bank of Evansville, Indiana, and requesting that the agent review the application on the basis of certain factors referred to in the letter, aside from the question of competition, which should be taken into consideration in determining the action to be taken on the application.

Approved.

Memoranda dated February 27, 1933, from the Board's chief telegraph operator, submitted with the favorable recommendation of Assistant Secretary Noell, recommending, because of the increase in the number of telegrams to the Federal Reserve Bank of New York and western Federal reserve banks which has resulted in a considerable delay in handling these messages, that the Board authorize the temporary duplexing of the wire to New York, at a cost of approximately $3.35 per day, in order that the messages to New York may be handled expeditiously and some of the telegrams to the western banks transmitted through the New York office, and that an additional operator (J. H. Heher) be temporarily employed in the Washington office, with salary at the rate of $165 per month, to take care of the increased work.

Approved.

Telegram dated February 27, 1933, from Deputy Governor Kenzel of the Federal Reserve Bank of New York, stating that on February 25 there was a distinct firming of money rates in that market which was indicated in the bill market, dealers bidding variously from 7/8% to 1 1/4% for deliveries to be made this morning, and that in these circumstances the Federal Reserve Bank of New York, as of the opening of business this morning, established the following schedule of effective buying rates on bankers' acceptances:

1 to 90 days	1%
91 to 120 days	1 1/8%
121 to 180 days	1 1/2%
Repurchase	1%

Without objection, noted with approval.

In connection with the above, Governor Meyer referred to the increase which has taken place in foreign exchange rates and in money rates both in the United States and abroad, and stated that he had discussed the matter with Governor Harrison of the Federal Reserve Bank of New York yesterday and had suggested that the stiffening of market rates should be recognized by the New York bank. The other members present expressed agreement with that suggestion.

At this point Mr. Mills, Chairman of the Board, and Mr. W. H. Woodin, Secretary of the Treasury designate, joined the meeting which continued as a meeting of the Federal Reserve Board.

Governor Meyer stated that the Acting Comptroller of the Currency had advised him that, because of the banking situation in the District of Columbia, he feels it would be desirable for the Comptroller of the Currency to have temporary powers with regard to banks in the District such as are contemplated by the so-called Couzens resolution with regard to national banks outside of the District of Columbia, and that he is working on a draft of a proposed joint resolution which he may wish to submit to the Federal Reserve Board for its consideration and approval, before presentation to Congress.

There then followed a discussion of the present reserve and currency position of the Federal reserve banks, domestic gold and currency withdrawals, and the banking situation generally.

Mr. Mills referred to the tenseness of the present banking situation and the very heavy pressure which is being brought on the banks in certain sections of the country; to the fact that because of advances which have been authorized recently by the Reconstruction Finance Corporation the Treasury Department this week will be forced to withdraw from its depositary banks practically all of its balances, which will result in increasing the pressure on those banks and particularly on the banks in New York City where the pressure is already heavy due to the movement of funds to the interior and abroad; and to the possibility that, as a result of this added pressure, the banks may be inclined to dispose of considerable amounts of Government securities which under existing conditions may cause such a weakness in the Government security market as to create an impression, generally, that there is not a satisfactory market for such securities. He called attention to the fact that the banks in the United States hold approximately $10,000,000,000 of Government securities, and that it is expected that it will be necessary to arrange for the sale of Government short term obligations amounting to more than $1,000,000,000 on March 15, 1933, in order to provide for retiring maturing obligations and needed additional funds. He stated that the furnishing of funds by the Treasury to the Reconstruction Finance Corporation is in response to the unsettled banking situation and expressed the opinion that the Federal Reserve System should give consideration to the advisability of purchasing during the current week Government securities in such amounts, up to $100,000,000, as might be necessary to steady the market. He added that this suggestion is influenced entirely by the present critical conditions and not by pending

Treasury offerings and that as Chairman of the Federal Reserve Board he desired to record the opinion that as a matter of sound banking policy in the face of the present crisis the Federal Reserve System should purchase Government securities as a means of putting additional funds into the market this week. He felt that as the present situation is in many ways a psychological one it is important to avoid any further strain on banks, particularly at this time, which, in his opinion, may prove to be the turning point to recovery, if public confidence is not further weakened.

Governor Meyer stated that he feels that the recent thinness in the market for Government securities is incident to the necessary readjustment in a market which has been too high under the conditions that have prevailed; that in view of the recent increase in money rates abroad, over which control cannot be exercised in this country, and the increase in money rates in the New York market and in the bill rates at the Federal Reserve Bank of New York, continued purchases of Government securities at the present time would be inconsistent from a monetary standpoint; and that the New York market should protect itself against the higher rates abroad by increased rates and not through open market purchases of governments by the Federal Reserve Banks. He expressed the opinion that any disturbance in the Government securities market would come in long term securities which recently have shown less resistance than the shorter maturities; that the Treasury Department should canvass the possibility of investing available postal savings funds in the purchase of such long term securities and that the only action which the Federal Reserve System should be expected to consider under existing conditions would be the possible exchange of some of its holdings of securities of short maturities, which continue to be in relatively good demand, for Treasury obligations with maturities of from nine to eighteen months. He also expressed the view that any reasonable amount of open market purchases at this time would prove to be ineffective and appear to be a vain attempt to prevent a readjustment of rates which is inevitable.

The thought was also expressed that the suggested purchases might be interpreted, particularly in Europe, as a direct attempt of the Federal Reserve System to support the Treasury financing program and if so would have a very detrimental effect both upon the credit of the Government and upon the standing of the Federal Reserve System.

A general discussion followed, during which it was indicated that the other members of the Board were not disposed to favor at this time the action suggested by Mr. Mills. Mr. Mills stated that he did not wish to press the matter, but that he felt strongly that the suggested action is desirable.

The meeting then recessed and reconvened at 2:40 p. m. with the same attendance as at the morning session of the Board except Mr. Paulger and Mr. Woodin.

The Assistant Secretary presented a telegram just received from Deputy Governor Kenzel of the Federal Reserve Bank of New York, stating that the bill market opened up this morning bidding 1 1/4% for ninety-day bills and offering them at 1 1/8% unindorsed and 1% indorsed; that there were only moderate offerings of new paper to the market; that dealer's portfolios were not large; and that the Federal Reserve Bank of New York purchased, largely from member banks, $58,000,000 of bills for System account at 1%.

Governor Meyer reviewed the discussion at the morning session and stated that he had talked over the telephone with Governor Harrison of the Federal Reserve Bank of New York regarding the question of purchasing additional securities and that, following an expression of opinion by Governor Harrison that a readjustment of rates in the New York market is inevitable, he had stated to Governor Harrison that he feels that the adjustment should be allowed to be completed as soon as possible, following which further consideration can be given to the question of additional purchases of Government securities to meet any temporary situation that might arise or to carry out whatever open market program is indicated to be desirable. He also stated that Governor Harrison suggested that the executive committee of the Open Market Policy Conference be given some additional authority to meet an emergency situation.

Governor Meyer also reviewed the information regarding the Government security market given by Governor Harrison over the telephone which indicated that there is a good demand for short maturities with less demand for maturities of from 9 to 18 months.

Mr. Mills stated that, notwithstanding the fact that the Government securities market closed up from the lows of the day, he is of the opinion, in view of the fact that the Treasury is faced with the necessity of calling upon depositary banks to repay $160,000,000 of Government deposits this week, $76,000,000 of which is for the Reconstruction Finance Corporation, the Federal Reserve System could render real service by purchasing Government securities up to $100,000,000, as it would be unfortunate to create any additional tension in the situation at the present time. He stated that he could probably avoid to some extent the calling for the repayment of deposits by creating overdrafts at the Federal reserve banks, but that, in his opinion, there are more objections to that action than to the purchase by the Federal Reserve System of additional Government securities.

A general discussion followed, at the conclusion of which it was agreed by the members present, with the exception of Mr. Mills, that the Board should take no action at the present time with regard to the purchase of additional securities, but that Governor Harrison should be advised by Governor Meyer that the Board stands ready to act promptly in an emergency and will not object to the exchange of some of the System's holdings of securities of short maturities for securities with maturities up to eighteen months, if such action is deemed desirable.

Mr. Mills then stated that it had come to his attention that Governor Norris of the Federal Reserve Bank of Philadelphia and Mr. Joseph Wayne of Philadelphia, one of the Class A directors of the bank, are sponsoring in the Pennsylvania legislature a bill which would permit a restriction to be placed on the payment of deposits by banks in that State, and that, in his opinion, such action in Pennsylvania is unnecessary and untimely.

> After discussion, Mr. Wyatt was requested to get in touch with counsel for the Federal Reserve Bank of Philadelphia with regard to the terms and legal effects of the proposed measure, and Governor Meyer stated that he would call Governor Norris on the telephone and ascertain the circumstances surrounding the introduction of the bill.

The question was raised whether copies of counsel's opinion on the constitutionality of legislation providing for a unified commercial banking system for the United States should be sent to the members of the Federal Advisory Council, and also whether the opinion should be published in the annual report and the Federal Reserve Bulletin.

After discussion it was decided that copies of the opinion should be sent the members and Secretary of the Federal Advisory Council; that the text of the annual report should contain a reference to the opinion with a statement of the conclusion reached therein; and that following the presentation of the text of the annual report to Congress, mimeographed copies of the opinion should be furnished to the public upon request, pending the printing of the full opinion in the March issue of the Federal Reserve Bulletin.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: Eugene Meyer
Governor.