

A meeting of the Federal Reserve Board with the Governors of Federal reserve banks was held in Washington on Thursday, October 12, 1933, at 12:20 p.m.

PRESENT: Governor Black
 Mr. Hamlin
 Mr. James
 Mr. Thomas
 Mr. Szymczak
 Mr. O'Connor

Mr. Morrill, Secretary
 Mr. Carpenter, Assistant Secretary

ALSO PRESENT: Messrs. Young, Harrison, Norris, Fancher, Martin, Geery, Hamilton, McKinney and Calkins, Governors of Federal reserve banks.
 Messrs. Peple and McKay, Deputy Governors of Federal reserve banks.
 Mr. Johns, Acting Governor of the Federal Reserve Bank of Atlanta.
 Mr. Strater, Secretary of Governors' Conference.

Governor Calkins, as Chairman of the Governors' Conference, reported that action had been taken by the Conference at its meetings as follows:

Topic II-D. Elimination from Treasury Circular 92 of customers' paper as acceptable war loan collateral. Voted that the Conference recommend to the Treasury Department that this class of paper be made ineligible as collateral for war loan deposits.

Topic III-A. Extension of provision for 10(b) loans. Voted, to recommend that the provisions of section 10(b) of the Federal Reserve Act, as amended, be extended for one year after March 4, 1933, under the discretionary power granted to the President of the United States.

Topic IV-A. Federal reserve exchange and transfer drafts. Voted, that the use of transfer drafts be abolished and that the use of exchange drafts be continued pending further consideration at a later conference.

Topic IV-C. Policy involved in handling subscriptions for intermediate credit bank debentures referred to in Governor

10/12/33

-2-

Morgenthau's letter of September 26, 1933. Conference requested Governor Fancher to obtain the views of the Treasury Department with regard to Governor Morgenthau's request, and, as a result of Governor Fancher's conference with Under Secretary of the Treasury Acheson, the latter suggested that a committee be appointed representative of the Federal reserve banks and the Treasury Department for the formulation of a report on the matter. In accordance with Mr. Acheson's suggestion, the Governors' Conference had appointed Governor Norris and Deputy Governor Burgess as members of the committee.

Topic IV-E-1. Reimbursement for fiscal agency expenses.

Topic IV-G. Reimbursement by Treasury for extraordinary expenses incurred during and immediately after bank holiday.

Topic IV-H. Reimbursement for gold abrasion. Governors Fancher, Martin and McKinney were appointed a committee to discuss these topics with the Board and the Treasury Department and report to the individual governors or to a subsequent Governors' Conference.

Topic V-A. Policy regarding issuance of Federal reserve bank notes. Voted that the Federal reserve banks which have not brought the amount of their circulation of Federal reserve bank notes up to approximately one tenth of their Federal reserve note circulation should proceed to do so as soon as possible.

The Conference also decided to recommend to the Federal Reserve Board the reconstituting of the committee on branch, group and chain banking for the purpose of amending the report previously submitted by the committee in the light of events which have transpired since the report was prepared, and with the view that the amended report would be submitted to the Federal reserve banks and eventually published.

Upon being advised by the Pension Committee of the Governors' Conference that its funds were practically exhausted, the Conference voted that the Committee be authorized to expend not to exceed \$5,000 in the completion of its work.

With regard to the question which was discussed by the Conference at the request of the Federal Reserve Board, as to whether employees who have been in the service of a Federal reserve bank for a long period and whose services are discontinued, should be continued on the payrolls of the bank at nominal salaries or on leave of absence without pay in order that they may have the benefit of any pension plan which may be adopted by the Federal reserve bank in the near future, the Conference voted that Federal reserve banks may, with the approval of the Federal Reserve Board, continue officers or employees of the banks on their payrolls with or without

10/12/33

-3-

compensation, depending on the circumstances, in order that they may not be removed from the banks' rosters and thereby become ineligible for pensions.

The Conference also referred to the large number of applications for membership in the hands of the Federal reserve agents and the Board and voted that the Federal reserve banks should cooperate in every way possible with the Federal reserve agents and the Federal Reserve Board in expediting the handling of such applications.

Governor Harrison, as Chairman of the Federal Open Market Committee, then stated that at the meeting of the Committee on October 10, 1933, it was voted that, subject to the approval of the Federal Reserve Board, the authority granted to the executive committee at the meeting of the Open Market Policy Conference on April 22, 1933, to purchase up to \$1,000,000,000 of Government securities be continued and reaffirmed for the unused portion of the authority.

Governor Harrison stated that the resolution was adopted unanimously by the Federal Open Market Committee and that immediately thereafter the executive committee of the Federal Open Market Committee met and authorized the purchase of \$35,000,000 of Government securities during the current statement week, which meant that the securities had to be purchased not later than Wednesday, October 11, 1933, and, not having had an opportunity to submit the resolution to the Federal Reserve Board for approval, a purchase of the authorized amount was consummated under the previous authority granted to the executive committee.

Governor Harrison also stated that, in discussing the resolution it appeared to be the opinion of all of the members of the Federal Open Market Committee that, from the standpoint of present banking conditions

10/12/33

-4-

339

alone, there was little or no reason for further purchases of Government securities, in view of which it was felt that it would be advisable for the executive committee gradually to reduce purchases as soon as, and to the extent that, it is possible to do so without any adverse effect on the government's recovery program. The Committee recognized, Governor Harrison stated, that unforeseen developments might arise which might change the views of the Committee and that, therefore, the executive committee should be free, pending another meeting of the Federal Open Market Committee, to use its full discretion in the light of conditions as they develop.

At meetings subsequent to the adoption of the resolution above referred to, Governor Harrison stated, the Federal Open Market Committee considered at length the question of putting in its minutes a more extended record of its views with regard to open market operations, and, with that thought in mind and for the purpose of giving the Board the views of the Committee, a memorandum had been prepared and approved by the committee for presentation to the Board. Governor Harrison then read the memorandum, which was in the following form:

"MEMORANDUM OF OPEN MARKET POLICY

"In their participation in the extensive open market program which the Reserve System has conducted for a number of months past, the Federal Reserve banks have been actuated by their desire to contribute to the fullest extent within their power to the national recovery effort. In furtherance of that desire, and as a result of our observation of the open market operation, we believe that we may render a helpful service by recording our present views.

"The System's holdings of government securities now amount to the unprecedented sum of \$2,274,000,000, more than ten percent of the Federal debt. Excess reserves of member banks are now nearly \$800,000,000, member bank indebtedness to

"the Reserve banks has been reduced to the smallest figure since August, 1917, and short-time money rates have been forced down to the lowest level in our history. When to these facts it is added that the volume of currency outstanding is \$5,595,000,000, far in excess of that outstanding in 1929, and that bank reserves are greater than at any previous time in our history, it would seem that our monetary problem today is not so much one of correcting a deficiency in the supply of basic money, whether by Federal Reserve credit or by government currency, as of achieving an effective use and turnover of the already existing supply.

"Open market operations, as a means of stimulating business recovery, are ordinarily designed to force banking funds, first, into the short-time money market, and subsequently, as short-time rates are lowered, into the intermediate and long-time capital markets. In the present instance, it seems clear that neither of these major purposes is yet accomplished.

"As to short-term credit, there are still grave obstacles both for borrowers and for lenders. Many business concerns, whose worth has been diminished by the unprecedented shrinkage in values and by several years of unprofitable operation, have been either unable or afraid to draw upon the available credit supply. At the same time many of the banks, partly by reason of their former unfortunate experiences and partly by reason of new uncertainties incident to the inauguration of the deposit insurance and other features of the Banking Act of 1933, have felt it necessary to pursue a policy of extreme liquidity. The result is that, notwithstanding the Reserve System's open market purchases and the consequent large increase in bank reserves, loans and investments of member banks have been virtually stationary for four months, and net demand deposits are less today than at the end of May. In addition, some \$4,000,000,000 of deposits remain locked up in closed or unlicensed banks.

"Not only has there been no expansion in the volume of short-term bank credit, but the desired pressure of funds into longer uses in the capital goods industries seems to be blocked by lack of confidence in the future position of the dollar and uncertainty with respect to monetary policy in general, and also by the liabilities imposed by the Securities Act of 1933 and the Banking Act of 1933. The capital issues market remains completely stagnant; and coupled with this is the further fact that the recovery in business from March to August, though unprecedented for extent in so short a period, revealed a serious lack of balance in the pronounced lagging of the capital goods industries, which are responsible for over 60 per cent of present unemployment. It is worthy of special mention, also, that during the recent recurrence of inflationary agitation the bond market lost one-third of its advance since March. The bearing of a declining bond market upon the condition of banks and upon the prospect for reviving the capital goods industries through the long-time money market requires no elaboration.

10/12/33

-6-

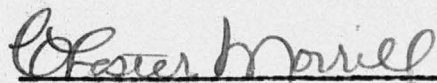
341

"In our judgment, these conditions indicate that the effectiveness of open market operations, in so far as banking and credit factors are concerned, will depend in large measure upon the early adoption of a broader program, designed to strengthen confidence and to encourage the flow of credit, both short-time and long-time, into uses which make for a well-balanced and enduring recovery."

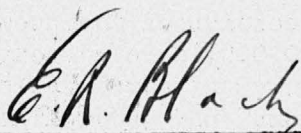
Governor Black raised the question as to whether the memorandum was to be understood as being confidential between the Federal Open Market Committee and the Board, and Governor Harrison stated that it was understood by the members of the Committee that it was to be treated as strictly confidential by them, and that, while the Committee would have no objection to the submission of the memorandum to the Secretary of the Treasury or to the President of the United States, if the Board decided such action would be helpful, it was otherwise to be held in strict confidence.

Governor Black stated that the Board would give careful consideration to all the matters covered by the actions taken by the Governors' Conference and the Federal Open Market Committee as reported to the Board.

Thereupon the meeting adjourned.


Secretary.

Approved:


Governor.