Form F. R. 567

Became FOMC

END SHEET

KIND OF MATERIAL OR NUMBER 333.-b-1

NAME OR SUBJECT Open Market Investment Committee
Open Market Operations

DATES (Inclusive) 1929 - 1930

PART NUMBER Part 5

(1) The Open Market Investment Committee, as at present constituted, is hereby discontinued and a new committee, voluntary in character, to be known as the Open Market Policy Conference, is set up in its place.

(2) The Open Market Policy Conference shall consist of a representative from each Federal Reserve Bank, designated by the Board of Directors of the bank.

(3) The Conference shall meet with the Federal Reserve Board upon the call of the Governor of the Federal Reserve Board or the Chairman of the Executive Committee, after consultation with the Governor of the Federal Reserve Board.

(4) The function of the Open Market Policy Conference shall be to consider, develop and recommend policies and plans with regard to open market operations.

(5) The time, character and volume of purchases and sales shall be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

(6) The conclusions and/or recommendations of the Open Market Policy Conference, when approved by the Federal Reserve Board, shall be submitted to each Federal reserve bank for determination as to whether it will participate in any purchases or sales recommended; any Federal reserve bank dissenting from the proposed policy shall be expected to acquaint the Federal Reserve Board and the Chairman of the Executive Committee with the reasons for its dissent.

(7) An Executive Committee of five shall be selected from and by the members of the Conference for a term of one year, with full power to act in the execution of the policies adopted by the Open Market Policy Conference and approved by the Federal Reserve Board, and to hold meetings with the Board as frequently as may be desirable.

(8) Each Federal Reserve Bank participating in the Open Market Policy Conference shall be considered as waiving none of its rights under the Federal Reserve Act; each Federal Reserve Bank shall have the right at its option to retire as a member of the Open Market Policy Conference, but each bank while a member of the Conference shall respect its Conference obligations.

333.-f-1

3-25-30

The Committee appointed at the meeting of the Federal Reserve Board with the representatives of the twelve Federal reserve banks yesterday, met at the Carlton Hotel last evening and adopted the attached revised draft of a proposed open market procedure.

It was also voted to be the sense of the representatives of the Federal reserve banks present at the meeting that the representative of the Federal Reserve Bank of New York be elected Chairman of the Conference for one year; that the Executive Committee provided for in the proposed procedure should consist of the Chairman and the representatives of the Federal Reserve Banks of Boston, Cleveland, Philadelphia and Chicago for one year; also, that the Conference adopt the principle of reasonable rotation in the membership of the Executive Committee after the first year.

Orig filed 333.-C

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 15, 1930

To All Members of the Board

Subject: 333-B-1

From Mr. McClelland

GPO 2—8495

By direction of the Governor, there is attached hereto a letter dated January 9th from the Governor of the Federal Reserve Bank of San Francisco, and reply thereto, regarding a letter which Governor Calkins addressed to Governor Harrison, under date of January 7th, regarding open market policy.

Governor Young
Mr. Platt
Mr. Hamlin
Mr. James
Mr. Cunningham
Mr. Miller
Mr. Pole

Please circulate promptly and return to the Secretary's Office.

March 18, 1930

Dear Mr. Case:

Governor Young has received and is bringing to the attention of the other members of the Board your letter of March 17th, regarding the reduction in the discount rate of your Bank to 3 1/2 per cent, and certain views of your officers and directors as to the policy which should be pursued in the event of any excessive expansion of credit.

Very truly yours,

E. M. McClelland,
Assistant Secretary

Mr. J. H. Case, Chairman,
Federal Reserve Bank,
New York, N. Y.

~~Executive Folder~~
~~Date 3/18/30~~

March 18, 1930

Dear Governor Talley:

Governor Young has received your letter of March 15th, and is circulating among the other members of the Board, for their information, copy of your letter to Mr. Case of the same date.

Very truly yours,

E. M. McClelland,
Assistant Secretary

Mr. Lynn P. Talley, Governor,
Federal Reserve Bank,
Dallas, Texas.

Please circulate Paul

FEDERAL RESERVE BANK OF NEW YORK

333.-6

March 17, 1930.

Dear Governor Young:

Carded

In connection with our discussions last week relative to the change in our discount rate one point was made both by our officers and our directors which I should like to pass on to you.

We all realize that in reducing our rate to 3 1/2 per cent. and accompanying this rate reduction by making funds so freely available through open market operations in the interest of business, we are embarking on a course which involves certain dangers. In the past reductions below four per cent and large open market purchases have at times been followed by outbursts of excessive speculation and too rapid increases in the volume of credit. We here believe that the present business and credit situation justifies running some risk in the hope that business may be benefitted, and there appears just now to be less risk than usual from excessive speculation.

We have the belief, however, that even now as we take this step we should be considering the policy to be pursued if too rapid expansion of credit results. One method which has been discussed is the general practice of the European central banks of raising their rates by a full per cent rather than by one half per cent steps. We may find that this practice, based upon long experience in many countries, would be effective here. It at least appears to warrant careful consideration.

On one view we are quite unanimous: that if necessary the System should be as prompt to take vigorous and definite measures to prevent excessive expansion of credit as it has been during the past five months to take steps designed to facilitate the movement toward easy credit conditions in the interest of business. The experience of the past few months should insure wide public support for the System in acting to prevent as far as its powers go the

rec'd ans 3/18/30

recurrence of the events during this period.

I am passing on to you these views, not with the thought that any of us can in any way make advance commitments since every situation is in some sense unique, but simply to keep you informed as to our discussions. The suggestion is perhaps one that you would like to discuss with your associates.

Faithfully yours,

J. H. Case
Chairman

Honorable Roy A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Please circulate Ray

333.-1

FEDERAL RESERVE BANK
OF DALLAS

March 15, 1930.

Dear Governor Young:

I am enclosing herewith a letter which I have today written Mr. J. H. Case, Chairman of the Board, Federal Reserve Bank of New York, in response to his letter of March 7.

Mr. Case's letter is an analysis of developments in the money market, business and credit situations since the meeting of the Open Market Investment Committee in Washington on January 28 and 29.

Since Mr. Case advises that he has communicated with the Board in regard to these questions and that the meeting for March 24 has been arranged between the Board and the Federal Reserve Bank of New York, I feel no hesitancy in filing these views with the Board prior to the meeting.

Yours very truly,

Governor

Mr. R. A. Young, Governor
Federal Reserve Board,
Washington, D. C.

see ans 3/18/30

March 15, 1930.

Mr. J. H. Case, Chairman
Federal Reserve Bank of New York,
New York City.

Dear Mr. Case:

It was good of you to write me so freely on March 7, to cover so completely the general money market, business and credit situations and to express the tentative conclusions reached from an analysis based upon the recognition of the effect of all contributing factors.

There has been plenty of evidence to us that what appeared to be an upturn in January has not held. There has been an increasing pressure exerted by commodity surpluses and the over-abundance of goods generally in other lines. It has also been quite clear that there really has been no business demand for funds, although there was at the close of March 5 an upturn of 98 million dollars in the loans of reporting banks.

Your letter does not particularly emphasize the fact but I easily gather from it that your officers have been anxious to promptly follow the situation with lowered rediscount and bill rates. There does appear from what you say and in your expressed tentative conclusion an over-anxiety to make these new and lower rates effective through the purchase of an additional amount of governments. There seems to me to have been quite a sufficient rapid decline in discounts and therefore an additional amount of governments, I think, would accelerate that trend, although I would like to say that we have no concern here over the probability or actual phenomenon of the banks being entirely out of debt or in respect to how low, in the circumstances, total earning assets might go.

We have had in mind that it would probably be much better to purchase some sterling and franc exchange so as to nullify the possibility of gold imports either from England or the Continent, so that there would be no interference with any tendency toward an improved purchasing power and that the effect upon prices here might follow a natural course as the result of a gradual improvement in demand. Over-exertion toward open market purchases could have an inflationary effect on the commodity prices ~~in~~ and goods that would tend to thwart the improvement in purchasing power abroad and this could result in a stimulation of stock market buying of the same character. The purchase of foreign bills and our release of exchange against such purchases from time to time would of course have the same effect, but you advise that Governor Harrison has informed you that it is impracticable to follow that course in view of the scarcity of the supply of bills that might be purchased.

I also observe that on yesterday quotations for bills in the London market were very low, some maturities offered at substantially below 3%. If this situation portends a further early reduction in foreign bank

rates, the exchanges would naturally weaken further and we would then have again the question before us of foreign exchange purchases. On the other hand if the execution of this policy would not prevent gold imports, then we have nothing but a situation of competition between ourselves and the foreign situations in bringing about and reaching the greatest money ease. In that case the only thing that we could do would be to make substantial open market purchases in order to win in the competition.

With the whole world apparently sitting on the same side of the table financially as to easy money policies, it is extremely difficult for me to see how we are going to have any success in forcing gold away from us, and the only thing that can ensue is an inflation that would be mistaken for business recovery. With the tendency to bring out new security issues and the proceeds of these issues more or less idle during the process of being used, we are likely to create the same situation that began in the latter days of 1927 by reason of the concentrated proceeds of these issues being available for stock exchange money to be used in speculation. This, in my judgment, would follow, unless the rather large proportion of security proceeds are to be used for export capital.

This brings us to the question of the Reparations bonds and their sale would of course absorb that part of the available funds, but it ought not to be overlooked that these bonds themselves represent inflation in themselves because they merely represent the hiatus between the destruction of capital during the war and the time when that capital can be re-saved.

Frankly, we were very much disappointed over your reduction in rate to 3½% last Thursday. We feel a little bit better about it today, because the stock market has regarded the action as an unfavorable symptom and seems to recognize it as a panacea for business depression. The increase in brokers' loans of approximately a quarter of a billion dollars in the last two weeks indicates some public distribution following an accumulation by the wise ones - "the strong hands" - during the period of extreme stock market depression, and I think that this is very, very bad, as in my own opinion there is no justification for the present general level of stock prices. I just want everybody to remember that one can now borrow money at 3 to 3½% and buy and carry stocks which apparently return yields of from 5 to 8%. The public becomes extremely impatient in regard to low yields and we have only the one compensating factor that there are many first lien securities that can yet be attractively bought. The dear public, however, instead of having bought this class of securities to any extent during the last two years of low prices for them, is going to do exactly like it always does and buy them on rising markets and diminishing yields. The security issues that are being brought out now I notice are largely debentures and therefore not much different from the orgy of stock issues in the latter part of 1928 and throughout the year 1929. In other words, aren't we becoming over-capitalized? And yet I understand that the issue houses must live or liquidate.

Everyone seems to want to keep business jammed up all the time and have it run along at boom figures. It seems to me that the sounder course to pursue, after having done this for some time, is to catch up and let the public pay some of its debts or at least acquire larger equities in its automobiles, radios and real estate, though in following such a course there would be a lot of heartbreaks because in order for all of them to settle up we would have to go on playing the oboe and similar instruments and go on with the marathon dance so that everyone could get their fill of enjoyment.

It seems to me that a good deal has already been done in respect to which the Open Market Committee would expect to deliberate at the meeting which has now been definitely called for March 24. With the call rates and investment yield rates rapidly approaching a point well below the savings and time deposits rates over the country, we are going to see and it is already apparent to me, an increase in so-called time deposits and a renewal of the battle on the part of the member banks to reduce their reserve requirements in consequence.

Summing up, therefore, aren't we just starting to wind up the clock again after the mainspring has slipped the ratchet and won't we just keep on doing that until about the latter part of August when we will hear New York advocating that we ought to begin selling some securities and tightening up, just at the time that we would naturally expect a normal revival in business activity and confronted with the problem of absorbing new commodity production, provided of course that some inroads have in the meantime been made on existing surpluses.

It is apparent from the published statements that the New York bank has already purchased additional government securities to the extent of approximately $25,000,000. I want to reiterate my position that the failure of several Federal reserve banks to participate in open market purchases is not an expression of effective opposition to policy. It is difficult for me to understand why the Governors of some of the Federal reserve banks will vote in the affirmative for the open market policy and then will refuse to participate in the purchases, notwithstanding their reserve and collateral positions admit of their doing so. The open market purchases have the same effect upon the System and the country whether made by one bank or participated in by a group. The proceeds of open market purchases work their way into every district in the course of time, regardless of whether the Federal reserve bank of that district participates in the purchases or not.

Since we have been participating and taking our pro rata part of the allotments that would have gone to non-participating banks and this course has raised our participation from its normal amount of 3.3% to 7 and 8% at times, and in consequence of our dragging along with the lowest reserve percentage in the System, we have concluded that in the future, dependent upon our reserve and collateral position, we will accept our participation only to our normal proportion.

I do not seem to have been able to make any impression of my position that all Federal reserve banks should support through active participation whatever open market policy is adopted even though voting in the negative. Therefore, we propose to take our participation dependent upon our reserve and collateral position, up to our normal amount and if our statements in this regard are not effective, insofar as we are concerned we will let the effect of non-participation on the part of some bank show for itself. Since at the present time (when we take back the five million dollars we sold under repurchase agreement, which we expect to do shortly), our participation in open market purchases is 5.63% , we do not expect to take any more participations above our normal amount, we desire to withhold any participation in present purchases, thinking that at the meeting on March 24, there may be a reapportionment of the securities now in the account.

We also think that it would be better for the participation to be pro-rated on the basis of reserve percentages instead of on the need for earning assets. We do not believe that System policy should either lean to or from an amount of earning assets. Where the participation is pro-rated on the basis of reserve percentages, it would naturally follow that the bank which had a greater proportion of earning assets at the time would receive a correspondingly smaller

participation and vice versa.

Since you have been in touch with the Federal Reserve Board in reference to the points covered in your letter and inasmuch as the Open Market Conference has been called by the Board, I am taking the liberty of sending a copy of this letter to the Board.

I read the copy of Mr. McGarrah's letter of February 21, which you sent me. The only comment that I can make is that it is in vivid contrast to the one that we wrote the Board on the same subject.

In closing, let me offer my congratulations to you upon your appointment to the chairmanship of the New York bank. We hope that the assumption of your new duties is not going to lessen our direct contact with you and we don't believe it will because you will carry to the new position the influences of your long experience and high ability as an operating officer in the System.

Looking forward to seeing you in Washington or later in New York, should Governor Harrison return in time to attend the meeting, I am

Yours very truly,

Governor

FEDERAL RESERVE BANK OF NEW YORK

333.-6

March 7, 1930.

Dear Governor Young:

Our officers and directors yesterday gave consideration to your letter of March 5 suggesting that in the view of the Federal Reserve Board no harm and some good might be accomplished by an interim purchase by this bank of up to 50 million dollars of Government securities pending a meeting of the Open Market Committee suggested for March 24. Our directors present at the meeting and our officers were unanimously in favor of making such purchases and the directors authorized the officers to proceed to execute it. In accordance with this action we have made purchases of $25,000,000 from private sources and further purchases will probably be made for delivery during the statement period beginning March 15.

I am to-day writing to the Governors of the other Reserve banks and am offering them participations in the purchases if they desire. I am also asking their comments as to a committee meeting on March 24.

Very truly yours,

J. H. Case
Chairman

Noted
AT BOARD MEETING.
MAR 10 1930

Honorable R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Form 148 A

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE

WASHINGTON

333.61

The telegram given below is hereby confirmed.

2—94548 GPO

January 30, 1930

McGarrah - New York

Confirming telephone conversation. Minimum buying rate of reappeared taken under review by Board which has determined minimum buying rate to be reapply.

Young

See N. Y. bill rates

March 5, 1930.

Dear Mr. Case:

Referring to our telephone conversation this afternoon, I confirm below the information which I gave you:

At the meeting of the Board this morning, very careful consideration was given to the business and credit situation generally. The Board realizes that conditions are not good and believes that the present is an opportune time for the System to take some action. It would, perhaps, be advisable to have a meeting for the consideration of open market policy, say, on Monday, March 24th, after the tax payment period. During the interim, the Board feels that no harm could be done and possibly some good might be accomplished by an increase in the Government security portfolio of your bank, gradually, if possible, by not to exceed $50,000,000 up to the date of the meeting on March 24th. Following the meeting, any securities purchased could be distributed to such other Federal reserve banks as may care to participate.

The Board would appreciate any views your Board may have relative to this suggestion.

Very truly yours,

R. A. Young,
Governor.

Mr. J. H. Case, Chairman,
Federal Reserve Bank,
New York City, N. Y.

see ans 3/7/30

1/30/30

The Board has considered the report of the Open Market Policy Conference and notes:

(1) That it is the judgment of the Conference that "no market Operations in Government Securities are necessary at this time;"

(2) That it would have an unfortunate effect upon business if the demand for additional credit for Spring business concurrently with running off in the present bill portfolio of the System should result in the hardening of rates; and

(3) That the Conference recommends that the "minimum buying rate for bills fixed by the Federal Reserve Board be reduced so that the Federal reserve banks may have such flexibility in their operations that the present portfolios may not only be maintained but if necessary be increased to such an extent as to avoid the hardening of rates which might result from a seasonal demand for additional reserve credit."

The Board has carefully considered the report of the Conference and is of the opinion that a hardening of rates whether such hardening should result from demand for additional credit for Spring business or from a reduction of the total volume of reserve credit should be avoided, and is therefore prepared to consider reduction in the effective buying rate for bills to prevent hardening of commercial rates. With this in mind the Board is prepared to approve a minimum effective buying rate of 3 7/8% for any Federal reserve bank wishing to establish such rate..

(Draft of letter to a Fe al Reserve Banks concern re t submitted to the Federal Reserve Board by the Open Market Policy Conference)

The Board has considered the report of the Open Market Policy Conference and notes:

(1) That it is the judgment of the Conference that "no market Operations in Government Securities are necessary at this time;"

(2) That it would have an unfortunate effect upon business if the demand for additional credit for Spring business concurrently with running off in the present bill portfolio of the System should result in the hardening of rates; and

(3) That the Conference ~~further recognize~~ recommends that the "minimum buying rate for bills fixed by the Federal Reserve Board be reduced so that the Federal reserve banks may have such flexibility in their operations that the present portfolios may not only be maintained but if necessary be increased to such an extent as to avoid the hardening of rates which might result from a seasonal demand for additional reserve credit."

The Board has carefully considered the report of the Conference ~~supplemented as it was by detailed oral questions and discussions at the meetings of Tuesday and Wednesday, January 28th and 29th. The Board~~ and is of the opinion that a hardening of rates whether such hardening should result from demand for additional credit for Spring business or ~~that~~ from a reduction of the total volume of reserve credit should be avoided, and is therefore prepared ~~at any time~~ to consider ~~a~~ reduction in the effective buying rate for bills ~~as might be necessary~~ to prevent ~~a~~ hardening of commercial rates. With this in mind the Board is ~~now~~ prepared to approve a minimum effective buying rate of 3 7/8% for any Federal reserve bank wishing to establish such rate.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date January 30, 1930

To Memorandum for file.

Subject: 333-B-1

From Mr. Carpenter.

2—8495

Carded

Under date of January 23 the Board received a request from the New York bank for a reduction in the minimum buying rate for bills from 4% to 3-1/2%. This was taken under review pending the meeting of the Open Market Committee on January 28, and at the meeting of the Board on January 30 the Board took the 3-1/2% rate under review and determined the minimum buying rate for bills to be 3-3/4%.

333-b.1
1/29/30

Governor McDougal, after expressing the attitude of the Chicago board which has had under consideration the lowering of the discount rate, said he believed this action might be taken in the near future if the directors could agree that it would be a stimulus to legitimate business. In regard to the proposed reduction in the bill rate, he stated he could not quite see the propriety of such action at the moment but that he certainly would not favor any action which would tighten the situation.

Governor Norris expressed the opinion that the program adopted in November has been accomplished and that no further easing should be effected. He stated he would not favor a reduction in the discount rate at this time, although he would approve a small reduction in the bill rate to keep the System in the bill market and prevent liquidation of the entire System portfolio, and not for the purpose of increasing holdings.

Deputy Governor Paddock stated that the situation in the First District has cleaned up better and more rapidly than was expected but there are still some collateral loans which should be liquidated. He stated his bank would like to see a policy of marking time for the present until something more definite develops, and then probably begin with a reduction in the bill rate.

Governor Fancher stated that he thought the System policy should be to keep money fairly comfortable and that he would favor a reduction in the bill rate. With regard to a reduction in the discount rate, he stated his bank is still at 5%, the directors feeling that some pressure should be continued a while longer to assist liquidation, and though it may later - toward the end of February - reduce to 4-1/2%, he thought it would stay at that rate for some time.

Governor Talley stated that up to this time his bank has been in

333.-b.2
another copy filed ~~333.31~~ - meeting 1/28/30

favor of the execution of the System policy, but he would not now approve a reduction in the bill or discount rates. He expressed the opinion that the System can err more readily at the present time by easing than by doing nothing, and he would be opposed to any specific movement to ease.

Governor Martin expressed the opinion that the results sought in the November policy have been obtained. He stated he thought a reduction in the discount rate right now would be a movement in the wrong direction, as he does not believe business is suffering because it cannot get money at reasonable rates and a reduction might retard liquidation. He also stated that if a reduction in the bill rate would result in a fairly immediate lowering of the discount rate, he would not favor that at the present time.

Governor Black expressed the opinion that a policy of ease should be continued. He stated his bank would favor a reduction in the bill rate, and, if it had an opportunity, would probably reduce its own discount rate of 4-1/2%, in an effort to obtain reasonable rates for business.

Governor Geery stated that his bank maintains a 5% discount rate, which is below the commercial rate in the district. If a reduction in the bill rate were to be made to a point where it would interfere with the normal distribution of acceptances, he stated he would be opposed to it, but he thought it would be a wise move if it were simply a step to conform to the market and take on as outright holdings such bills as are now carried under repurchase agreements.

Governor Seay expressed the opinion that the System should maintain the present situation rather than ease further. He said he thought the System should proceed cautiously in order to see that hardening of rates does not result from the spring demands and to prevent any hardening it might be well to act through the acceptance rate or possibly by small purchases of Gov-

ernment securities, although he would dislike very much to see the latter done.

Governor Calkins expressed the opinion that the objective of the System's policy, as he understood it, seems to have been achieved and there is no occasion to go farther at the present time. He stated that if it should later appear desirable to bring about a condition of greater ease it should be done through some slight variation in the bill rate, as the System can then reverse itself without embarrassment, which it cannot do as regards the discount rate.

333.-b-1

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6484

January 23, 1930.

SUBJECT: Open Market Procedure.

Dear Sir:

This letter invites the attention of your bank to changes which the Federal Reserve Board, after prolonged consideration of the matter, has concluded should be made in the existing procedure governing open market operations. See X-3689 filed 333.-b-1 Open Mkt. Inv. Com.

It may be recalled that it was in April, 1923, that the present procedure with regard to open market operations was adopted. In the preceding year many of the reserve banks, in order to maintain portfolios of earning assets, entered the market on their own separate accounts to purchase United States Government securities, without much regard to the effects of their operations on the market for Government securities or on credit conditions. It was found necessary, in consequence, to give to open market operations a status which recognized their credit effects and economic consequences and also their effects on the position of each Federal reserve bank.

A copy of the Board's resolution containing an outline of the procedure adopted in 1923 is herewith enclosed. Under this procedure the principle governing open market operations was defined and its application and practice left to a Committee consisting of five reserve banks acting under the general supervision of the Federal Reserve Board.

The principle was stated as follows:

> "That the time, manner, character and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business, and to the effect of such purchases or sales on the general credit situation."

The five banks constituting the Open Market Investment Committee were the following:

Federal Reserve Bank of Boston
Federal Reserve Bank of New York
Federal Reserve Bank of Philadelphia
Federal Reserve Bank of Cleveland
Federal Reserve Bank of Chicago.

Indexed & filed 333.-C

Although the necessity of giving to open market operations a System status was recognized in 1923, it was not then foreseen how much use would be made of the open market operation as an instrument of Federal reserve credit policy. As a matter of fact, frequent resort has been taken to open market operations - either by purchase or sale of United States Government securities - as a mode of policy in the five years following the 1923 arrangements.

The experience of this period shows that the open market operation, when involving other than trifling amounts, may be of first-rate importance in altering credit conditions even when viewed on a national scale.

It is not surprising, therefore, that suggestions should have been made that the System character of open market operations should be fully recognized by having all twelve Federal reserve banks, instead of five as at present, represented in the shaping of open market policy. Views to this effect have been expressed informally by reserve banks not included in the existing set-up, and formally by the Federal Advisory Council in the following recommendation adopted in September, 1928:

> "The Federal Advisory Council without any intention of criticising the present arrangements but in order that all governors of the Federal reserve banks may participate in the discussions leading up to actions of the Open Market Committee suggests to the Federal Reserve Board to consider the advisability of having the membership of the Open Market Committee consist of all the governors of the Federal reserve banks with an executive committee composed of five members with full power to act."

For the reasons briefly set forth above, the Board has drawn up a revision of the 1923 open market procedure, which embodies a fuller recognition of the joint interest and responsibility of the Federal reserve banks and the Federal Reserve Board in the matter of open market policy. The elements of this procedure are contained in a memorandum adopted by the Federal Reserve Board reading as follows:

"(1) The Open Market Investment Committee, as at present constituted, to be discontinued and a new committee, to be known as the Open Market Policy Conference, to be set up in its place.

(2) Each Federal reserve bank to be represented on the Open Market Policy Conference.

(3) The Conference to meet with the Federal Reserve Board at such times as may be arranged by or with the Board.

(4) The function of the Open Market Policy Conference to be to consider, develop and recommend plans with regard to the purchase or sale of securities in the open market.

(5) The time, character and volume of such purchases and sales to be governed with the view of accommodating commerce and business and with regard to their bearing upon the credit situation.

(6) The conclusions and/or recommendations of the Open Market Policy Conference to be submitted to each of the Federal reserve banks and to the Federal Reserve Board for consideration and/or action.

(7) A committee to be known as the Open Market Executive Committee to be constituted for the purpose of executing such purchases and sales of securities as have been approved by Federal reserve banks and the Federal Reserve Board."

Such further working arrangements as may be found necessary to make the above outlined plan operative will, in the opinion of the Board, best be determined by the Conference itself when it is organized.

The Board believes that the above procedure contains the essentials of a workable plan designed to give expression to the common interest of the Federal reserve banks in matters of open market policy and to provide a reasonable and practicable method for joint action. After your bank has had time to consider the plan, the Board will welcome an expression of your views.

By order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO CHAIRMEN OF ALL F. R. BANKS.

X-4586

RESOLUTIONS APPROVED BY FEDERAL RESERVE BOARD AT MEETING ON MARCH 22, 1923.

"Whereas the Federal Reserve Board, under the powers given it in Sections 13 and 14 of the Federal Reserve Act, has authority to limit and otherwise determine the securities and investments purchased by Federal reserve banks;

Whereas the Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks;

Whereas the amount, time, character, and manner of such purchases may exercise an important influence upon the money market;

Whereas an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market;

Whereas heavy investments in United States securities, particularly short-dated certificate issues, have occasioned embarrassment to the Treasury in ascertaining the true condition of the money and investment markets from time to time,

THEREFORE, Be It Resolved, That the Federal Reserve Board, in the exercise of its powers under the Federal Reserve Act, lay down and adopt the following principles with respect to open market investment operations of the Federal reserve banks, to-wit;

(1) That the time, manner, character, and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called "Repurchase" agreement.

Be It Further Resolved, That on and after April 1, 1923, the present Committee of Governors on Centralized Execution of Purchases and Sales of Government Securities be discontinued, and be superseded by a new committee known as the Open Market Investment Committee for the Federal Reserve System, said Committee to consist of five representatives from the reserve banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this Committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board."

Orig. filed 3-22-23 333.3 O.M.I.C.

Mr. Cunningham made the following statement:

333-b-1

1/21/30

"The question of reorganizing the personnel of the Open Market Committee and the procedure ~~of this committee~~ has been before the Federal Reserve Board since Aug. 1928.

The Governor advises that he recently discussed this subject with the Chairman of the Board and the directors of the Federal Reserve Bank of New York and that it was tentatively agreed that no definite action would be taken at that time.

I have been impressed for some time with the necessity for some definite action on this matter in order that the activities of the Open Market Committee may have fuller recognition of the joint interests and responsibilities of the Federal Reserve Banks and the Federal Reserve Board. I hope that in opposing the reconsideration of the present action of the Board approving the proposed plan of reorganization, my attitude will not be considered discourteous toward the Chairman and Governor of the Board, for regardless of the present action of the Board approving the proposed reorganisation, they are always privileged to continue their deliberations on the subject with the Federal Reserve Bank of New York, at their pleasure, and are also entitled to the privilege of moving an amendment or a reconsideration of the vote by which the reorganisation was made effective whenever they deem it advisable. Therefore, I vote "no" on the motion to reconsider the vote of the Board approving a plan of reorganisation of the Open Market Committee."

~~January 21, 1930.~~

Mr. Cunningham's statement

Consult

Executive Folder
Date

333.-61

January 14, 1930.

Dear Governor Calkins:

This will acknowledge receipt of your letter of January 9th enclosing copy of a letter which you have dispatched to Governor Harrison, the Chairman of the Open Market Investment Committee, dated January 7, 1930. I have read the same with great interest and am today circulating the correspondence among my colleagues. I am most grateful for your action in forwarding your views and it seems to me that if all of the Federal reserve banks would follow this procedure that it would be decidedly to the Board's benefit.

When the Open Market Committee makes their recommendation to the Federal Reserve Board, the Board approves it either with or without qualifications, but that should not be considered by any reserve bank as a closed transaction and if any reserve bank feels that the System's policy is bad or that it is progressing too rapidly or not rapidly enough, that reserve bank's views should be made known to the Federal Reserve Board. *

The Board has been watching the situation very carefully, particularly since the first of the year, to see what effect the return flow of currency would have on the portfolios of reserve banks. At this writing the return flow has been a little faster than we expected and has not reduced the repurchase agreements on bills that we anticipated. The dealers' portfolios are very heavy in New York City; being well over the two hundred million mark and distribution seems to be slow. I was talking to Mr. Kengel on the phone yesterday, however, and he believes that within the next week the dealers' portfolios will be reduced considerably without any appreciable increase in our holdings. *s

We have all felt that it was a little early to have a meeting of the Open Market Investment Committee but think that one should be held towards the end of the month. I still believe that Open Market Committee meetings should be attended by representatives of all reserve banks and the only serious objection against that view is the great distance that some of the representatives have to come, particularly San Francisco.

I gather from your letter, however, that you have very strong views in reference to the present situation and if such is the case, I presume that you would like to be present at the next meeting. Therefore, upon

receipt of this letter, I would appreciate it very much if you would wire me if you can attend and how much notice you will require.

With kind personal regards, I am

Yours very truly,

R. A. Young.
Governor.

Mr. J. U. Calkins, Governor,
Federal Reserve Bank,
San Francisco, California.

Office Correspondence

FEDERAL RESERVE BOARD

Date January 11, 1930

333.-b-1

To All Members of the Board

Subject:

From Mr. McClelland

GPO 2—8495

1/10/30

There is attached hereto copy of the letter regarding open market conditions and prospects which Governor Harrison addressed to the Governors of those Federal reserve banks not represented on the Open Market Investment Committee and which he presented during his informal discussion with the Executive Committee of the Board today:

Governor Young
Mr. Platt
Mr. Hamlin
Mr. James
Mr. Cunningham
Dr. Miller
Mr. Pole

Form

333.-6-1

CONFIDENTIAL

January 10, 1930.

Dear Governor Harding:

Since talking with you on the telephone the other day regarding our open market program in its relation to present conditions, it occurred to me that it might be wise to send a review of those conditions and prospects to each of the Governors not represented on the Open Market Investment Committee.

You will notice that the letter is merely an expression of our views here and except in part does not purport to reflect the opinion of the committee as a whole. It occurred to me, however, that you might be interested in reading it, and I would like to think that, by and large, it represents your own views of the situation.

Faithfully yours,

George L. Harrison,
Governor.

Honorable W. P. G. Harding,
Governor, Federal Reserve Bank,
Boston, Mass.

Submitted

JAN 21 1930

Enc.

See memo 1/11/30

~~CONFIDENTIAL~~

January 10, 1930.

Dear Governor Black:

While you have been receiving formal reports of the Open Market Committee currently, it has occurred to me, now that we have turned the end of the year, that it may be helpful to review conditions and prospects as we now see them, especially as they relate to the System policy recommended by the Open Market Committee and approved by the Federal Reserve Board in November.

As you will remember, that policy was, in substance, that the Federal Reserve System should do all within its power toward assuring the ready availability of money for business at reasonable rates. With this in view, the committee recommended a program of open market operations that would avoid any increase and, if possible, facilitate some reduction in the total volume of member bank discounts, since a large volume of discounts has always been an inevitable obstacle to easy money conditions generally.

It seems to us, as we now see the problem, that while we have made excellent progress towards our objectives, there is no occasion at the present time to change our policies or objectives, although it must be recognized that there is now a real difference in the machinery or means to be employed in accomplishing them now that we have turned the end of the year.

6

During the fall, and especially during the month of December, the seasonal demand for currency and Federal reserve credit will usually average about $300,000,000. During the past two months, the demand for currency was slightly less than usual, but this difference in currency payments was far more than offset by an outward flow of gold aggregating about $110,000,000.

While Federal reserve figures were much distorted as a result of the crisis in the stock market and the consequent shifting of loans by "others" back to our member banks, nevertheless total Federal reserve assets expanded during this fall period, that is, from the end of August to December 24, by a little over $300,000,000, or about the usual seasonal amount, Between November 27, immediately after the approval of the Open Market Committee's report, and December 24, total Federal reserve credit expanded about $100,000,000, or just about the amount of gold exports. The seasonal requirements for currency which were slightly less than usual this year were almost fully offset by the reduction in member bank credit and reserve requirements following the sharp upturn the first of November.

During this period of four weeks, November 27 - December 24, open market operations of the System comprised the purchase of $155,000,000 of government securities and an increase of about $100,000,000 in bills, including repurchase agreements - an increase of $255,000,000 in the total open market holdings of the System, or a net increase in such holdings of about $150,000,000 beyond the amount of gold exports. As a result of all these operations there was a reduction in System discounts of almost precisely $150,000,000 during this same period.

Thus up until Christmas we were successful not only in avoiding any increase but in actually accomplishing some reduction in member bank discounts and thus in securing some relief in the general credit situation despite the seasonal demand for credit and an additional demand due to gold exports.

Since Christmas the usual return flow of holiday currency and the reduction in credit requirements have by the natural process carried further the easing operation which before Christmas we facilitated by the purchase of government securities. The latest report shows that member bank discounts are now down to a little under $600,000,000, or about what they were in the spring

of 1928. In this way the first technical step has been taken toward removing one of the obstacles to an easier credit position. It cannot be said, however, that the country has yet the full benefit of freely available credit at reasonable rates. The bond market is somewhat improved but is still restricted. Mortgage money is difficult to obtain, and while over the counter rates and commercial paper rates have both declined at the principal centers they are still considerably higher than they were before the period of huge speculative demand for credit. It will evidently take some time before these conditions are corrected, but at least some of the obstacles to a restoration of more normal credit conditions have been removed.

In the meantime the evidences of business recession have become constantly clearer. Car loadings, bank debits, and commodity prices show a continuous decline and employment reports which we have just received for New York State show a reduction in factory employment of 4 per cent in December.

In view of all the facts we do not see any occasion at the present time for a change in the general objectives of System policy formulated in November.

It seems to us, however, and to the other members of the committee that in view of the progress we have already made and in view of the uncertainties in the credit situation pending an unwinding of the year-end movements, there is no need at this time for any further purchases of government securities. On the other hand, there are a number of factors in the situation which make us believe that there is no need just now for any sales from the System Account. As we see it, continued large holdings of bankers acceptances under repurchase agreement, substantial maturities during January of bills held outright for the System, member bank discounts, and possible gold exports, are all factors which will tend to mop up the return flow of currency and credit in amounts sufficient to avoid any sloppiness in the money market.

In all the circumstances we feel that there is probably no need to have a meeting of the Open Market Committee before the last week in January, when we will have a still better picture of the effect of the usual seasonal credit operations during the month. In the meantime, we recognize that it will be necessary to watch the situation carefully and that, as always must be the case, we should be prepared, in the event of any sudden change in conditions or the development of any need, promptly to reconsider and, if necessary, amend our present program and policies.

I should very much appreciate any comments which you may care to give us regarding these open market policies or any suggestions which you may care to have the committee consider at its meeting the latter part of this month.

Very truly yours,

George L. Harrison,
Governor.

Mr. Eugene R. Black,
Governor, Federal Reserve Bank of Atlanta,
Atlanta, Ga.

Circulate
Pall

FEDERAL RESERVE BANK OF SAN FRANCISCO 333.-b-1

January 9, 1930

Governor Roy A. Young,
Federal Reserve Board,
Washington, D. C.

My dear Governor Young:

I am enclosing copy of a brief letter addressed to Governor Harrison, 1-7-30 as Chairman of the Open Market Investment Committee, on the seventh.

Of course, in this I have endeavored to epitomize and abbreviate and consequently have only made part of the argument. I believe, however, that it does roughly express the views which we still hold.

Yours very truly,

Roger Ransom
Governor

Enclosure

see ans 1/14/30

333.-6-1

January 7, 1930

Mr. Geo. L. Harrison,
Chairman, Open Market Investment Committee,
Federal Reserve Bank of New York,
New York City.

My dear Mr. Harrison:

At the time that we discontinued participation in the open market purchases of Governments we were somewhat influenced by our then reserve position, though that was by no means the principal consideration. Inasmuch as, as we anticipated, we have had considerable liquidation resulting in a reserve position which perhaps is at the top of the list, that consideration no longer obtains.

We are not, however, in entire sympathy with the course of open market policy. Considering the argument in your letter of November 27th, supplemented by what you said on the same subject at the last conference — which was, briefly, that inasmuch as your investigation showed the chart line representing System rediscounts and the line showing current rates (in New York) coinciding, it was desirable, in order to keep the cost of credit at a reasonable level, to have one-half of the total of Federal Reserve credit outstanding represented by rediscounts and the other half by open market purchases — it appears to us that the figures now indicate that, inasmuch as rediscounts approximate forty per cent. and open market purchases approximate sixty per cent., it might be held that about $150,000,000 too much open market credit was outstanding; in other words, that, in accordance with this view, we should have $750,000,000 discounts and $750,000,000 in bills and securities, instead of, as we have, $600,000,000 discounts and $900,000,000 invested.

It is, perhaps, futile to try to apply the word artificial to credit conditions, but it appears to us that the policy pursued has resulted in an artificial condition, and as we are not in sympathy with the view that artificial conditions should be created for the purpose of promoting a bond market, we are still reluctant to go along. Of course, we realize that in the interim there has been considerable export or earmarking of gold, and we believe it is desirable to tentatively or partially offset such operations by increasing Federal Reserve credit. We cannot see that that policy can be continuously

Encl. with letter 1-9-30

followed without unfavorable results. We are unable to see that the 1927 experiment, now quite generally, we believe, admitted to have been disastrous, contributed very materially to the welfare of this country by providing or supporting a market for our exports.

Our views may be provincial, but we have no pride of opinion, are quite willing to be convinced, and will be entirely reconciled to changing our views when convinced that they are wrong. We do, however, believe that the purpose of the Federal Reserve System is to provide and assure adequate finance for trade (inclusive term) at a cost conducive to stability and such expansion as may be, and that our policies should be formulated to that end without being too much influenced, favorably or unfavorably, by the gyrations of the stock market or the desire to create or promote a bond market. S

Yours very truly,

Governor

Open market

FEDERAL RESERVE BANK OF RICHMOND

333.

December 6, 1929.

Dear Governor Young:

Carded

We received a few days ago from the Federal Reserve Bank of New York a copy of a resolution passed by the directors of that bank with respect to the open market purchase of government securities, and likewise a copy of a resolution of the Federal Reserve Board, or a letter giving the approval of the Board to such proposed action. Our directors had previously taken the position that this bank should not participate in the use of further Federal reserve funds in the open market, but conditions are now radically changed.

The next meeting of our directors does not occur until the 19th. I therefore communicated with them, expressing the opinion that this bank should join in the policy suggested, and have since received the approval of all of our directors in that policy. In order that our position may be clear to you, I am sending you a copy of the letter addressed to each one of our directors to which they have given their approval.

Very truly yours,

GJS-CCP

Geo. J. Seay

GEO. J. SEAY,
Governor.

Hon. R. A. Young, Governor,
Federal Reserve Board,
Washington, D. C.

FEDERAL RESERVE BANK OF RICHMOND

CONFIDENTIAL

December 3, 1929.

Dear Mr. _____:

Since the next regular meeting of our directors will not take place until December 19, I am sending you herewith a copy of a very important communication from the Governor of the Federal Reserve Bank of New York, accompanied by a copy of the resolution passed unanimously by the directors of the New York bank and by a copy of a resolution relating to the situation described passed by the Federal Reserve Board.

If we are to join in the proposed purchase of government securities, our action would be of little or no effect if postponed until the next meeting, when whatever needs to be done by the System, if anything, will have been done in all probability. Personally, I am not persuaded yet that developments will call for the use of any large additional amount of Federal reserve funds; but it is very important, in my opinion, that the situation should be eased along and that Federal reserve funds should be used if found necessary.

Between now and the first of the year, there will probably be the need of somewhere between $100,000,000 and $200,000,000 additional currency for the customary holiday trade. There is only one way of supplying this currency in the absence of gold imports (which now are trending the other way), that is, by banks' drawing down their excess balances in the Federal Reserve System, if any, and by creating excess balances through rediscounts and withdrawing the proceeds in currency. This is the customary procedure. Looking back over a period of years, it will be found that the use of Federal reserve funds has increased during this period of the year to be liquidated very freely in the first month after the turn of the year. The New York city banks are practically out of debt to the Federal Reserve Bank of New York and will, I take for granted, feel no disinclination to borrow in order to supply whatever currency demands may be made upon them. But in my judgment, it will be a good thing to enable the New York banks to keep out of debt to the Federal Reserve Bank of New York, and it will also be a good thing to keep member banks generally from having to resort to Federal Reserve Banks for any considerable volume of funds. The strength of the present extraordinary situation is the condition of the banks, particularly in the larger cities. They should keep themselves strong, and the Federal Reserve System should, in my opinion, help them to keep themselves strong. This can only be done by the voluntary injection of Federal reserve funds into the market through the purchase, in this case, of government securities, since the demand for bankers' acceptances is strong enough to absorb the supply.

It will, perhaps, be well for me to give a brief review of the existing credit situation. It is customary to speak of a tremendous liquidation which has taken place recently, having reference to the huge decrease in brokers'

loans. The net decrease in loans on securities is not as great as the decrease in loans to brokers would lead us to believe. Between October 2 and November 20, that interval being the period of drastic liquidation, weekly reporting member bank loans on securities did not decrease at all but increased $171,000,000, while all other loans within that period increased $271,000,000, and the amount of loans made by these weekly reporting member banks on securities as of November 20 was $887,000,000 greater than it was last year on the same approximate date.

The liquidation that has taken place therefore has been chiefly on loans on securities made by "others." That of course represents real liquidation so far as borrowers on securities are concerned, and so far as the general credit situation is concerned; but in bringing about the huge liquidation of loans to brokers, the member banks themselves were compelled to increase their burden somewhat. That increase, however, particularly under the circumstances, is very moderate. This is the picture:

DECREASE IN LOANS ON SECURITIES
(In millions)

	October 2	November 20		
Total Loans to Brokers	$ 6,804	$ 3,587	-	$3,217
Loans of Weekly Reporting Member Banks				
On Securities	7,828	7,991	+	163
All Other Loans	9,600	9,871	+	271
	17,428	17,862		
Loans Made for Others	3,907	2,031	-	1,876
	21,335	19,893	Dec.	1,442
Net Decrease in Loans on Securities				1,713

NOTE: If we had the figures from all banks of the country, they would doubtless show the net decrease in loans on securities much greater than the above, but nothing like to the full amount of the decrease in loans to brokers.

In one week, between October 23 and October 30, the loans of the New York city member banks increased $1,281,000,000, while their deposits increased $1,553,000,000. The increase in these two items for all other reporting member banks of the country was only $153,000,000 increase in deposits and $243,000,000 increase in loans. The increase in both loans and deposits of the New York city member banks has since been very greatly reduced.

Money should not arbitrarily be made too easy or we will force exports of gold, which will, doubtless, take place to some extent anyhow. If gold should go out freely, we would then, I think, be compelled to ease the situation by buying government securities. The other Federal Reserve Banks, with the exception of Boston and Chicago, have not been in a hurry to follow the lead of New York. Chicago has written me that it was done in that center for its psychological influence.

In my opinion, this bank should not be in a hurry to follow the lead of these other large banks. Chairman Hoxton shares that opinion. The Guaranty Trust

Company in its last monthly survey of business takes the view that the situation requires that money should go from the centers to the interior. Granting that view of the case to be correct, this can best be brought about by maintaining a higher discount rate in the interior. We are now lending to and rediscounting for our member banks $53,000,000 against $42,000,000 last year at the same time. $21,000,000 of the amount which we are now lending is secured by government bonds, against $18,000,000 last year. If we maintain our present discount rate while the rates in the centers are lower, a considerable portion of our loans against government bonds will probably be paid off.

On the other hand, the acceptances held by us at the present time, purchased in the open market, are $10,000,000 less in amount than they were last year. The investment market has taken practically all of the acceptances recently offered and the Federal Reserve System was not called upon to absorb them.

The amount of our participation in the proposed purchase of government securities, if made, would be about $10,000,000, which I think we could well afford to make. Conditions now are very different from what they were when we reached the decision that this bank should not lend itself to any further increase in the supply of Federal reserve funds to the market. There is now little danger, indeed, if any, of any such funds being used for speculative purposes. Our position with reference to the further acquisition of government securities was not taken by formal action of our directors but by general acquiescence -- at least that is my recollection. Should we participate in this proposed purchase, we could later dispose of our share, should it be thought advisable. Mr. Hoxton and I are of the opinion that action of this kind should now be a System matter, and if our directors agree and will so advise us, I will, in turn, advise the New York bank that we will participate.

The Confernece of Governors and Agents which was proposed will begin on December 11.

Very truly yours,

GJS-CCP
Encls.

(Signed) GEO. J. SEAY,
Governor.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date December 6, 1929.

To Federal Reserve Board

Subject: 333.-B-1

From Mr. McClelland.

2—8495

There is attached hereto for your information, letter dated December 3 from Governor Harrison, enclosing copy of a letter written by him to all Governors under date of November 27.

Gov. Young,
Mr. Platt,
Mr. Hamlin,
Mr. James,
Mr. Cunningham,
Mr. Miller,
Mr. Pole.

Please circulate promptly and return to Secretary's office.

333.-b-1

December 4, 1929.

Dear Governor:

This will acknowledge receipt of your letter of December 3 enclosing copy of your letter to all Governors dated November 27, 1929, with reference to the present policy of the System.

I appreciate very much your action in forwarding the information, and at the same time want to compliment you on the clear concise manner in which you handled the subject.

Yours sincerely,

(Signed) R. A. Young.

R. A. Young,
Governor.

Mr. George L. Harrison, Governor,
Federal Reserve Bank,
New York, N. Y.

FEDERAL RESERVE BANK

OF NEW YORK

333.-6-1

CONFIDENTIAL

December 3, 1929.

Dear Governor Young:

I am glad to enclose herewith for your information a copy of a letter which I sent to each of the other Governors on November 27, when transmitting a copy of the Board's letter of November 25 relative to the report of the Open Market Investment Committee.

As I explained to you over the telephone yesterday, several of the reserve banks have made inquiries about the development of conditions in this market during the past several weeks, with special reference to our large purchases of government securities the end of October. Because of these inquiries I thought it just as well to send some sort of a review to each of the Governors, especially as it has such a direct bearing upon any purchases of securities that may be made in accordance with the report of the Open Market Investment Committee. At the present time, seven banks are participating in these purchases. Of the remaining five, Cleveland and Richmond have written to us that they would take up with their directors the question of participation just as soon as it is possible to do so.

Noted

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

Honorable R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

See ans 12/4/29

SENT TO ALL GOVERNOR.

(COPY)

333.-b-1

~~CONFIDENTIAL~~

November 27, 1929.

Dear Governor Harding:

On November 19 we forwarded to you and to the governor of each of the other Federal reserve banks a copy of the report of the Open Market Investment Committee adopted at its meeting in Washington on November 12, and a copy of the Federal Reserve Board's letter dated November 13.

We have just received a further communication from the Federal Reserve Board, dated November 25, in which Governor Young states that the Board has reconsidered the action taken on November 13 and has voted to approve the general principles as to future policy laid down in the report of the Open Market Investment Committee and the resolution adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on November 7. For your information, and the information of your directors, I am enclosing a copy of Governor Young's letter of November 25 together with a copy of the resolution of our directors to which it refers.

While it is difficult at this time, in the scope of a letter, to give any very satisfactory review of the developments in this market during the past five or six weeks, nevertheless I hope you will let me comment more or less informally and in a general way regarding the situation as it related to this bank and the credit policies which we felt it necessary to adopt.

Some of the Federal reserve banks have already written to me making certain inquiries, especially in relation to our

Encl. with letter 12-3-29

purchases of government securities. It has occurred to me, therefore, that you, too, may be interested in a brief picture as we now see it.

The very sudden and drastic liquidation in the stock market, accompanied by the calling of loans for out-of-town banks and others, naturally resulted in a tremendous shift in loans to our own member banks just at a time when the stock market itself was weakest and the mechanical apparatus of the exchange was taxed to its utmost. Our particular problem was to endeavor to maintain an easy money position throughout the whole period lest any evidence of a shortage of funds or an increase in money rates might lead to some sort of a money panic. If we should have added to the panicky state of mind relating to security values any fear of a money shortage, we might indeed have faced the most serious calamity. With this in mind, we kept our discount window wide open and let it be known that member banks might borrow freely to establish the reserves required against the large increase in deposits resulting from the taking over of loans called by others. In addition to this we went into the market, as you know, and bought large blocks of government securities, partly for psychological reasons but largely because we felt it so important that there should be no tightening of money during the period of such large transfers of loans to our own member banks. As we look back now, it is not at all unlikely that had we not bought governments so freely, thus supplementing the reserves built up by large additional discounts, the stock exchange might have had to yield to the tremendous pressure brought to bear upon it to close on some one of those very bad days the last part of October.

For the moment, the stock market seems to have quieted down. There has been a vast liquidation of security loans, and funds transferred to New York from all over the country, to replenish margins or to pay for investments, have made for great ease in this market. While this surplus of funds is now lessening, we have not yet any money shortage. It is possible, however, that with the outflow of money now in progress and the increase in currency demand now beginning, money rates may very quickly tighten.

For a year or two the Federal Reserve System has directed most of its policies towards pressure upon the credit situation in order that it might minimize the amount of funds being employed for unnecessary or speculative purposes. We sold well over $400,000,000 of government securities and liquidated an equally large bill portfolio. Both of these operations tended to force member banks into our debt, so that we had a total volume of discounts in the System averaging over a billion dollars. Even now, after the liquidation of the stock market and consequent reduction in call loans, the total volume of discounts in the System approximates $900,000,000. And we do not have to go very far back in our history to realize that when the total volume of discounts is anything like the present level, we do not have the basis for easy money rates. Indeed, commercial paper rates and over-the-counter rates to customers fluctuate almost precisely as the total volume of discounts fluctuates, and it is questionable whether we can anticipate generally easier rates or easier money conditions until the volume of discounts as a whole is substantially reduced.

With the stock market out of the way at the moment and with little or no reason to fear that funds which we might put out will be employed for speculative purposes, the question immediately presents itself as to how we can most safely and quickly effect a reduction in the volume of discounts as a whole. Certainly we do not want to liquidate the total volume of reserve credit by forcing a deflation of two or three hundred million dollars in discounts at a time when business is obviously hesitating, commodity prices are declining, and when there are more evidences of a recession than of an over-expansion in any line. That being so, it seems to us that if we hope to accomplish a reduction in discounts to a point which will make money readily available, we must do so by a substantial increase in the System's open market portfolio. This will enable member banks to use the funds which we put out to pay off discounts and thus pave the way for a greater availability of funds for business at reasonable rates, open the bond and mortgage market, and establish for the first time in two or three years a more normal money position.

As we look ahead, it is not likely that the total volume of Federal reserve credit will average much less than, say, eleven or twelve hundred million dollars, perhaps thirteen or fourteen hundred million dollars. The growth of the country during the past year or so would seem clearly to justify this level of Federal reserve credit except as it might be altered by substantial gold movements. If that is true, it seems to us that we might expect the need of having, say, half of our total earning assets in open market portfolio, bills or governments.

The tremendous investment demand for bills has made it impossible and unwise for us to seek to acquire that form of investment any faster than we have. To do so would only dislodge what is now appearing to be a fairly satisfactory open market distribution of bills. That leaves us governments as the only effectively substantial means of operating in the open market at this time; and now that the Federal Reserve Board has approved of a program that will permit of such an operation, I hope that you will let us know, after you have had an opportunity to discuss it with your directors, whether you care to participate in any purchases that may be made in execution of the policy recommended by the committee and approved by the Federal Reserve Board.

It may well be that future developments will make it unnecessary or unwise to pursue any very substantial program of purchases. If so, we could of course proceed accordingly, but at the moment, with gold going out and facing a period of increased demand for currency, perhaps amounting to 250 or 300 millions, it seems that we have every reason to buy governments rather than to remain quiescent and force banks to increase their discounts to obtain necessary reserves. If we do that, instead of having nine or ten hundred millions of discounts, we may have twelve or thirteen hundred millions and postpone more or less indefinitely a return to a volume of discounts which will make easier money rates throughout the country possible.

At the moment New York City banks are borrowing practically nothing from the Federal reserve bank. They are not only out

of debt to us but have had large sums of money over, so that Federal reserve funds in New York have been selling at a substantial discount. On the other hand, member banks in other districts are heavily in debt, some reserve banks showing discounts as of November 20 in excess of one hundred million dollars. With this picture in mind, it would seem logical and desirable that any open market purchases made in System account in execution of the policy above referred to might better be made in those districts where discounts are heaviest. To the extent that this can be done it seems to us that it would be wise. It is probable, however, that most of the purchases in the execution of the program would have to be made in New York owing to the unavailability of securities in other markets. That would keep our member banks out of debt, leave them with funds over and lead them to reduce rates. That in turn would tend to force funds back into the interior as has been the case in the past two or three days, when very substantial transfers of funds have been made from New York to the interior. If and when that proceeds far enough, rates will again tighten up in New York. Our banks may be forced back into debt and then by the purchase of additional governments, they would be let out of debt, would find themselves with funds over and would repeat the process. Thus, by a gradual see-saw operation, we would be able to provide funds to the rest of the country with which discounts in other districts might be reduced. It is important, however, that we should not proceed so fast as to make funds in this or any market unnecessarily sloppy, but equally important that we proceed fast enough to avoid any tightening of rates that would unnecessarily check the seepage of funds to other districts.

I hope you will forgive the length and informality of this letter. There are so many variable factors in the situation that it is difficult definitely to prognosticate. At the moment, however, it seems to us that this is about the way a program of purchases would operate. In any event I should be very glad to have your views and reactions.

Very truly yours,

George L. Harrison,
Governor.

Hon. W. P. G. Harding,
Governor, Federal Reserve Bank,
Boston, Mass.

Enclosures (2).

No. 181

Office Correspondence

FEDERAL RESERVE BOARD

Date March 18, 1930

333.6-1

To All Members of the Board

Subject:

From Mr. McClelland

2—8495

For your information. Please circulate promptly and return to this office.

Governor Young
Mr. Platt
Mr. Hamlin
Mr. James
Mr. Cunningham
Dr. Miller
Mr. Pole

see letters of 3/15/30 and 3/17/30

333-b-1

November 25, 1929

Dear Governor Harrison:

Under date of November 13th, following consideration by the Board of the report submitted by the Open Market Investment Committee on November 12th, you were advised that, in the opinion of the Board, the general situation was not sufficiently clarified for the System to formulate and adopt a permanent open market policy at that time.

Filed 333.31

The Board has reconsidered this action and has voted to approve the general principles as to future policy laid down in the report of the Open Market Investment Committee and the resolution adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on November 7th, which you transmitted to the Board with your letter of the same date. 11/7/29 Accordingly, the Board authorises the Open Market Investment Committee to purchase, from time to time, not to exceed in the aggregate $200,000,000 of Government securities, with the understanding that if at any time the Board feels that purchases are being made too rapidly, it will so express itself to the Committee and reconsider the whole situation.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor

Mr. George L. Harrison, Chairman,
Open Market Investment Committee,
c/o Federal Reserve Bank,
New York, N. Y.

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

November 25, 1929

Dear Governor Harrison:

Under date of November 13th, following consideration by the Board of the report submitted by the Open Market Investment Committee on November 12th, you were advised that, in the opinion of the Board, the general situation was not sufficiently clarified for the System to formulate and adopt a permanent open market policy at that time.

~~In view of the more settled conditions which now exist,~~ The Board has reconsidered this action and has voted to approve the general principles as to future policy laid down in the report of the Open Market Investment Committee and the resolution adopted by the Board of Directors of the Federal Reserve Bank of New York at its meeting on November 7th, which you transmitted to the Board with your letter of the same date. Accordingly, the Board authorizes the Open Market Investment Committee to purchase, from time to time, not to exceed in the aggregate $200,000,000 of Government securities, with the ~~distinct~~ understanding that if at any time the Board feels that purchases are being made too rapidly, it will so express itself to the Committee and reconsider the whole situation.

Very truly yours,

R. A. Young,
Governor

Mr. George L. Harrison, Chairman,
Open Market Investment Committee,
c/o Federal Reserve Bank,
New York, N. Y.

Without at this time passing upon the general policy recommended by the Open Market Investment Committee in its report to the Federal Reserve Board dated November 12th, ~~by~~ but to cover any emergencies that may develop in the immediate future, the Board will not object to the purchase of government securities by the Open Market Investment Committee until such time as the Board feels that the purchases have become excessive either in the System or in any particular Federal reserve bank.

333.-b-1
11-25-29

Since the meeting of the Open Market Committee on November 12th, money rates in New York, and to some extent elsewhere, have continued to work lower, due to the very great release of credit from the securities market. This tendency continues and it does not appear to be yet possible to predict its limits. It appears therefore to the Board that the time has not yet come to determine how far it may be advisable to reduce the rediscounts of the member banks by purchasing government securities. The Board, however, realizes that the present tendency towards lower rates may be interrupted by the December demand for currency or by other causes and is willing therefore to approve the authority asked by the Open Market Committee to purchase not to exceed $200,000,000 of government securities, with the understanding that such purchases should be made to offset tightening tendencies, and with a view to their liquidation as currency returns after the end of the year, unless the Board and the Committee then determine that a lowering of the level of rediscounts is advisable.

Submitted by Mr. Platt
at Board Meeting
Nov. 25, 1929
emm

see letter 11/25/29 to Harrison

"Since the meeting of the open market Committee on Nov 12th money rates in New York, and to some extent elsewhere, have continued to work lower, due to the very great release of credit from the securities market. This tendency continues, and it does not appear to be yet possible to predict its limits. It appears therefore to the Board that the time has not yet come to determine how far it may be advisable to reduce the rediscounts of the member banks by purchasing government securities. The Board hopes, realizes that the present tendency towards lower rates may be interrupted by the December demand for currency or by other causes and is willing therefore to approve the authority asked by the open market Committee to purchase not to exceed $200,000,000 of government securities, with the understanding that such purchases should be made to offset tightening tendencies, and with a view to their liquidation as currency returns after the turn of the year, unless the Board and that Committee then determine that a lowering of the level of rediscounts is advisable."

Submitted by Mr. Platt

333-f-1

November 13, 1929.

Carded

Dear Governor Harrison:

Filed 333-b2

The Federal Reserve Board has had under consideration the report of the Open Market Investment Committee, dated November 12, and notes that the Committee's recommendations relate, (1) to the more permanent features of open market policy and, (2) to a possible emergency operation.

The Board feels that the general situation is not sufficiently clarified for the System to formulate and adopt a permanent open market policy at this time. The Board has that under continuous consideration and will be glad to confer further with the Committee as we approach more nearly steadied credit conditions.

The Board fully appreciates the possibility that a situation may arise speedily that will call for an open market operation on the part of Federal reserve banks by the purchase of Government securities. To this end the Board has arranged to act promptly on the application of the Committee or any Federal reserve bank to purchase securities in a sudden contingency. It has authorized the Governor, should the Board not be immediately available, to act on its behalf in giving approval in an emergency to purchases. In the event that an emergency should arise with such suddenness and be so acute that it is not practicable to confer with the Governor, the Board will interpose no objection to a purchase operation being undertaken, with the understanding, however, that prompt advice of such purchase be furnished the Board.

This action of the Board supersedes the authority which was granted to the Open Market Investment Committee on September 24, 1929, to purchase not to exceed $25,000,000 per week of Government securities.

Very truly yours,

(Signed) R. A. Young,

R. A. Young,
Governor

See Minutes
AT BOARD MEETING
NOV 25 1929

Mr. Geo. L. Harrison, Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York City, N. Y.

Referred to Mr. Mellon and approved Mellon

see letter 11/25/29

333.3

The Federal Reserve Board has had under consideration the report of the Open Market Investment Committee, dated November 12th, (Filed 333.3) and notes that the Committee's recommendations relate [redacted] (1) to the more permanent features of open market policy and (2) to a possible emergency operation.

The Board feels that the general situation is not sufficiently clarified for the System to formulate and adopt a permanent open market policy at this time. The Board has that under continuous consideration and will be glad to confer further with the Committee as we approach more nearly steady ~~and stabilized~~ credit conditions ~~in the security markets~~.

The Board fully appreciates the possibility that a situation may speedily arise that will call for an open market operations on the part of ~~the~~ Federal reserve banks by the purchase of government securities. To this end the Board has arranged to act promptly on the application of the Committee or any Federal reserve bank to purchase securities in a sudden ~~that~~ contingency. It has authorized the Governor, should the Board not be immediately available, to act on its behalf in giving approval to ~~such~~ purchases. In the event that an emergency should arise with such suddenness and be so acute that it is not practicable to confer with the Governor, the Board will interpose no objection to a purchase operation being undertaken, with the understanding, however, that prompt advise of such purchase ~~will~~ be furnished the Board.

This action of the Board supersedes the authority which was granted to the Open Market Investment Committee on September 24, 1929 to purchase not to exceed $25,000,000 per week of government securities.

Approved

NOV 13 1929

333.31-1

(CONFIDENTIAL)

Since the meeting of the Committee on September 24, the credit situation has changed abruptly. There has been a severe liquidation of credit against securities under circumstances which constitute a serious threat to business stability at a time when there were already indications of a business recession. This seems clearly to indicate the need of having the Federal Reserve System do all within its power toward assuring the ready availability of money for business, at reasonable rates.

In view of these circumstances and for the purpose of avoiding any increase, and if possible facilitating some reduction, in the total volume of member bank discounts, the Committee believes that the System should be prepared to increase the open market holdings of the Federal reserve banks through the purchase of bills if they can be acquired in sufficient amounts without interfering with their present desirable distribution, and if not, through the purchase of Government securities.

It is believed by the Committee that this may be done with safety in the interest of business without the risk that funds so put out by the Federal reserve banks would be used to stimulate any abnormal or unnecessary expansion of member bank credit.

The Committee also has in mind the fact that present conditions may possibly develop to the point where, as an emergency measure, in the interest of maintaining banking and business stability, it may be necessary quickly to purchase large amounts of Government securities in order to avoid any undue stringency in credit.

The Committee therefore recommends that the present limit of $25,000,000 per week on the purchase of Government securities be removed and that the Committee be authorized in lieu therefor to purchase not to exceed $200,000,000 of Government securities for account of such banks as care to participate, in order that it might be empowered and prepared to make purchases of Government securities as and when it may seem to be necessary for the purposes, or in the contingencies outlined above, but only with the understanding that there be a careful current review by the Federal Reserve Board and the Committee of the consequences of any such purchases that may be made, and that another meeting with the Board be held at any time it may seem desirable to the Board or the Committee, and that in any event there be another such meeting not later than the first week in January.

11/12/29

orig filed 333.31 - meeting 11/12/29

ANALYSIS OF OPEN MARKET INVESTMENT COMMITTEE OPERATIONS

Period from August 1 to November 1929 ?

11/4/29

August 2--"Governor Harrison of the Federal Reserve Bank of New York was present at the meeting of the Board on August 2. He discussed with the members of the Board in detail the present credit situation in this country as well as conditions abroad and emphasized the effect of possible adverse foreign developments in this country. Three courses, he stated, seemed to be open to the Federal reserve system: (1) To adopt a policy of pressure reflected through sharp and repeated rate advances; (2) to do nothing but maintain the present position, or (3) to adopt a policy of relaxation which would let Federal reserve credit out into the market as needed during the fall if possible to do so safely.

"He expressed the opinion that the time is passed for the adoption of a policy of higher rates as a part of a program of pressure or deflation looking toward future easier money, and that the question now seems to be whether the system can release funds necessary to finance fall requirements and have a tendency toward reduction of market markets without stimulating a new demand for speculative credit of overstimulating business developments which now appears to be on a sound basis, but which might easily become more expanded should our foreign markets be curtailed by a continuance of present rates here and abroad.

"He suggested an increase in the discount rate to 6 per cent as a warning against the excessive use of credit with a simultaneous reduction in bill rates to attract acceptances and possibly purchases of securities in the event bill holdings of the system should not increase or increase too slowly."

August 6--On August 6, at a meeting of the Board attended by Governor Harrison and Governor Talley, reference was made to the discussion at the meeting of the Board on August 2, and Governor Harrison reiterated briefly his statements regarding the credit situation, and possible future credit policy. He stated he was unable to give the Board any expression of the opinion of his Board of Directors, but two of these directors considered the plan suggested by him at the meeting of the Board on August 2 the best so

far suggested for meeting the fall requirement, but the third made inquiries as to the apparent inconsistency of an increase in rate with a simultaneous policy of east through purchases of bills or governments."

August 7--"On August 7 the Board met in joint conference with the governors of all Federal reserve banks, and at a meeting of the Board on August 8 the discussion which took place at the joint meeting was reviewed. The question of an increase in the rediscount rate of the Federal Reserve Bank of New York, as a part of a plan to safely meet the fall credit requirements, was the subject of further discussion at the conclusion of which an informal canvass indicated that a majority of the members present would give favorable consideration to action of the Federal Reserve Bank of New York establishing a discount rate of 6 per cent if coupled with a policy of requiring bills to the extent necessary to meet fall credit requirements. The Board again went into session with the Governors of the Federal reserve banks and received the following report which had been adopted by them:

"'It is the judgment of the governors that the demand for increased credit incident to the autumn requirements of crop-moving and business should be met so far as possible by an increase of the bill portfolio of such banks as care to participate in bill purchases.

"'The governors are also of the opinion that this procedure can best and most safely be undertaken and with least risk of abuse in the use of Federal reserve credit under the protection of an effective discount rate in the New York District.

"'They are further led to this conclusion by the expressed belief that an increase in the discount rate of the Federal Reserve Bank of New York would necessitate increases in a few, if any, of the other Federal reserve banks during the period of seasonal business demand, and the desire of the directors and officers of all other reserve banks to avoid increases if possible. It is therefore recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate.'

"Following this joint meeting, advice was received from the Federal Reserve Bank of New York that the directors

of that bank had voted to establish a rediscount rate of 6 per cent subject to the approval of the Board, and to reduce from 5¼ to 5 1/8 per cent the minimum buying rates on acceptances. The rate of 6 per cent established by the New York directors was approved after the Board had voted to adopt the report received from the governors as a basis of Federal reserve policy during the ensuing months."

August 15--"At a meeting of the Board on August 15, Governor Harrison and Deputy Governor Kenzel were present, and Governor Harrison discussed with the Board the question of possible purchases of sterling exchange. The question of establishment of bill rates was also discussion and a motion was adopted as follows:

"'That in the absence of a quorum of the Board, the Executive Committee--or in its absence the executive officer of the Board--be authorized to approve effective buying rates within the limits of the 5 per cent minimum and the 5½ per cent maximum, except the Federal Reserve Banks of Dallas and Atlanta where 4 7/8 per cent and 4½ per cent rates are now in effect on short maturities, and the Federal Reserve Bank of Richmond where a rate of 5 5/8 has been established on long maturities, such rates applying to bills originating in the respective districts.'"

September 17--"The Federal Advisory Council met with the Board on September 17, and later presented the following resolution adopted by it:

"'The Advisory Council, after consideration of Governor Young's extension of the open market policy adopted following the fixing of the New York Federal Reserve Bank rate at 6 per cent, believes that the increase of the New York bank rate to 6 per cent and the reduction of the buying rate for bills in the open market have worked satisfactorily thus far and have the approval of the Council.

"'The Council concurs in the thought that the Federal reserve banks should buy acceptances to such an amount as may be necessary to avoid any greater burden on commercial business and suggest that these purchases should be made only as the need develops.'"

September 19--"At the meeting on September 19, the Governor advised of a telephone conversation with the Governor of the Federal Reserve Bank of New York regarding

the advisability of holding a meeting of the open market investment committee for the purpose of considering the purchase of a limited amount of Government securities. Tuesday, September 24, was fixed as the date of the meeting."

September 24--"Meeting of Open Market Investment Committee--Preliminary memorandum for the Open Market Investment Committee, submitted September 24, 1929. The memorandum opened with a quotation of the resolution adopted at the meeting of the governors of all the Federal reserve banks at Washington, on August 7 and 8, and then proceeds to state:

"In the six weeks which have elapsed since the adoption of the program, seasonal demands for Federal reserve credit have been entirely met by increases in holdings of bankers' acceptances by the Federal reserve banks. In fact from the statement of August 2 to that of September 18, the total amount of Federal reserve credit outstanding has increased $57,000,000. The amount of bankers' acceptances held has increased $162,000,000. Discount of member banks have decreased $130,000,000, and holdings of Government securities have increased $20,000,000, dur to an increase in holdings of securities under sales contract. The statement for September 18 shows total bills discounted of $934,000,000, equivalent to 68.5 per cent of total bills and securities, compared with $1,064,000 on August 7, equal to 81 per cent of total bills and securities.

"The accompanying diagram shows that the increase in total Federal reserve credit since the last week of July, when the seasonal expansion normally begins, has been in accordance with the normally to be expected increase on the basis of previous experience.

"The second diagram shows the changes in system holdings of bankers' acceptances for the past three years and shows that during August system holdings increased more rapidly than last year, but since then have about kept pace with the figures for the past two years. During the current week, however, there appears to have been a noticeable decline in the rate of increase of bill holdings. It is still early to pass judgment fully on the effects of the policies adopted. The immediate psychological effect of the rate change passed quickly. Since then there has been some evidence that the economic consequences of these policies may be of considerably greater importance."

"Effects on money rates--The following table compares open market money rates on September 23 with corresponding rates in the first week of August and indicates that except for a slightly firm tendency in commercial paper and in time money there has been no appreciable change in interest rates.

MONEY RATES AT NEW YORK

	First week August 1929	September 20, 1929
Stock exchange call loans	8-12	8
Stock exchange 90-day loans	8¾-9	9
Prime commercial paper	6	6¼
Bills 90-day and endorsed	5 1/8	5 1/8
Customers' rates on commercial loans	6	6.07
Treasury certificates and notes:		
Maturing December 15	4.79	4.54
Maturing March 15	4.56	4.51
Federal Reserve Bank of New York rediscount rate	5	6
Federal Reserve Bank of New York buying rate for 90-day bills	5¼	5 1/8

"An analysis of the rates actually charged by commercial banks to their commercial customers in the second district indicates practically no change in the rates charged by banks outside of New York City, which are generally uniform at 6 per cent. In the cities 6 per cent is the commonest rate. A slight movement upward is shown in the fact that fewer loans are made at 5½ and 5¾, and possibly a few more are made at rates above 6 per cent. Thus, the average of rates is fractionally higher on that account, continuing an upward tendency which has been reflected in an increase month by month from 5.50 per cent in February to 6.07 per cent in September, as indicated by reports from ten New York City banks.

"Effect in member banks position--Since the rate increase there has been little net change in the total loans and investments of reporting member banks in spite of an increase of $230,000,000 in commercial loans. This increase has been about offset by a decline of $140,000,000 in collateral loans and $110,000,000 in investments. Brokers' loans have continued to expand and are now $549,000,000 higher than they

were early in August when the discount rate was increased, but this increase has been largely in loans for account of others, and in face of a decline in the total loans on collateral by reporting member banks.

"In a number of ways the statistics appear to reveal an attitude on the part of member banks generally. The following points are interesting: (1) Bank loans on collateral have declined during the period when brokers' loans were rising steadily; (2) Funds made available to member banks by Federal reserve acceptance purchases in excess of seasonal needs were used entirely to reduce indebtedness at reserve banks. There was no increase in bank credit; (3) Decreases in rediscounts had not yet been reflected in any easing in money rates, although, as illustrated by the attached chart, we might expect that a continued reduction in total volume of rediscounts will ultimately tend to decrease interest rates.

"All these appear to show an unwillingness of the banks to continue in debt and a vigorous and general attempt to liquidate this debt.

"Effect on movement of funds--Following the increase of discount rate at New York, a considerable flow of funds from other districts was a possible danger which might have forced other reserve banks to protect their reserves. In the week immediately following the rate change there was some movement to New York, but this was of short duration and was followed by a loss of funds--following out the usual seasonal course.

"This result is probably ascribable to the fact that the discount rate was already so far below market rates that the increase had little effect on market rates.

"On the other hand, funds made available by the purchase of acceptances have largely gone to liquidate discounts at the New York Reserve Bank and discounts at other reserve banks have followed out the usual seasonal course. The rate change has apparently had little effect upon the movement of funds between the United States and Europe. Confidential reports to the New York Bank indicate a slight increase in foreign balances between the end of July and the end of August, but this increase cannot be attributed to higher rates in this market for it took already the form of an increase in holdings of bankers' acceptances and Treasury certificates, the yields on which have not increased. There

was, moreover, a decrease of $24,000,000 in the amount of foreign funds employed on time or call in this market, the first decreases occuring in this account for some time. It is perhaps significant that it accompanied a level of call money rates slightly lower than had prevailed for some months previous.

"European situation--The flow of gold from Europe has continued at about the same rate as before the policies of August 8 were adopted. Since that time the Bank of England has lost an additional $22,000,000 (mostly to France and Germany) of gold, and its reserves have been reduced from $141,400,000 to $136,900,000. There have been no marked changes in European money rates. The indications are that the pressure upon Europe, due to high money rates, is becoming constantly more intense and is tending to retard industrial and business developments. August figures show an unseasonal decline in United States exports, though a single month's figures are not sufficient to indicate a trend. There is evidence of a banking up of wheat in shipping centers, which is probably attributable at least to restraint on the part of foreign buyers.

"Domestic business situation--Business is still operating at a high level, above any of the computed "normal" lines based on previous years' experience and allowing for growth. In recent weeks, however, there has been a declining tendency in a number of basic industries. Building activity has been reduced still further and automobile production has been receding, and steel production has reflected these tendencies. These recessions have not, however, progressed far enough to warrant definite conclusions as to the trend.

"Agricultural conditions--The size of the year's crops is expected to be generally smaller than a year ago with higher prices. The total return to the farm may be not short of a year ago, but certain sections of the country have suffered severely through the drought. The continued pressure on the credit situation has also been reflected by increasing reports from some localities of difficulties of agriculture in securing an adequate supply of credit." (End of preliminary memo)

"After the reading of the preliminary memo, a full discussion of the credit situation ensued, as a result of which a tentative minute containing recommendations of the

committee was drafted. At 12 oclock Governor Young joined the meeting and discussed with the meeting proposals made in the tentative draft. At 12.30 Dr. Goldenweiser joined the meeting. Various amendments and the drafted recommendation were considered. At 1.15 the committee adjourned for lunch and later, prior to meeting with the Federal Reserve Board, the following report of the committee was unanimously adopted by all members of the committee present.

"'The committee has reviewed a preliminary memorandum on current credit conditions.

"'During the past 18 months interest rates in this country have gradually risen and money, especially for new undertakings, has become more difficult to obtain. While business continues at a high level, there are some indications of a possible impending recession.

"'Rates in many foreign centers have risen even more markedly and the loss of reserves of seasonal banks threatens further increases in rates and probable curtailment of Europe's capabity to buy this country's products.

"'In accordance with the system's policy adopted on August 8, seasonal requirements for Federal reserve credit have been met by bill purchases, and in fact such purchases have been sufficient to reduce rediscounts to some extent.

"'For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season--if this can be done without stimulating unnecessary or abnormal expansion of member bank credit--the committee favors a further increase of the open market holdings of the Federal reserve banks. It favors an increase of these holdings by the continued purchase of bills if they can be obtained in sufficient amount to accomplish this purpose. If bills cannot be obtained in sufficient amounts without interfering with the present desirable distribution, it favors the purchase of Government securities of the short maturities.

"'The committee therefore recommends that it be authorized to purchase not to exceed $25,000,000 a week

of such certificates for account of such banks as care to participate with the understanding that such purchases be made only under the conditions above stated and with the further understanding that there be careful current review of the consequence of such purchases in order that there may be another meeting with the Board at any time that that may seem advisable either to the Board or to the committee. In any event, the committee feels that there should be another such meeting not later than November 1.'

"The meeting reconvened at 2.30 oclock with the Federal Reserve Board, there being present, in addition to the members of the committee, Secretary Mellon, Governor Young, and Messrs. Pole, James, Cunningham, Goldenweiser, Smead, McClellan and Noell. Secretary Mellon presided. The preliminary memorandum was first read to the meeting and was followed by a discussion of various aspects of the credit situation.

"Governor Harrison then presented the report of the committee and its recommendations to the Board. In presenting these recommendations, Governor Harrison indicated that the proposal for a possible purchase of Government securities was made only to provide for the contingency of not being able to secure a sufficient amount of bankers' acceptances to meet the seasonal expansion in Federal reserve credit and make some additional provision for reduction in the total of member bank borrowings. The proposal to bring about some reduction in these borrowings was not made with the thought that it would be possible to bring about any substantial ease in the money market under present conditions, but rather with the thought that some reduction in this indebtedness would be a necessary prerequisite to any future easing of interest rates generally, as soon as that became possible without the risk of unnecessary or abnormal expansion of member bank credit. He emphasized the fact that money rates, both in this and in other countries, appear to have risen continuously toward higher levels and that the proposed purchase of Government securities, if necessary as a supplement to purchase of bills, might be a helpful influence to preventing further stringency of money and paving the way for the future of restoration of more normal monetary conditions throughout the world.

"There ensued a discussion of the proposals made. In particular, Mr. Cunningham raised a question whether a

further reduction of bill rates might be possible. Upon this point it was the general feeling of the members of the Open Market Committee that a further reduction of these rates at this time would be undesirable as an artificially low rate would tend to impede, or even undue, the distribution of bills.

"After further discussion the meeting was adjourned at 3.30 p.m."

November 11--Preliminary memorandum for the Open Market Investment Committee meeting of November 11.

"The memorandum opens with the reprint of the resolution, adopted at the meeting of the committee on September 24 and approved by the Federal Reserve Board. After quoting this resolution, the memorandum states:

"'Since that meeting the following changes have occurred in system holdings of bankers' acceptances and Government securities.

(In millions)

Week ended	Accept-ances	Change in week	Government securities	Change in week
September 25	264	+23	152	- 26
October 2	323	+59	146	- 6
October 9	333	+10	141	- 5
October 16	360	+27	138	- 3
October 23	379	+19	136	- 2
October 30	340	-39	293	+157
November 6	330	-10	293	

"Up until mid-October, acceptances were offered in sufficient volume to meet system requirements, but from then on offerings were small due to demand from other buyers, and it was necessary to increase the holdings of Government securities to achieve the end in view.

"The changes in holdings of acceptances and Government securities and bills discounted, as compared with the estimated and seasonal requirement for Federal reserve credit, are shown in the attached chart. It indicates that until the latter part of October purchases of bills and Governments were more than sufficient to meet seasonal needs for Federal reserve funds, and bills discounted declined somewhat.

"In the period up to the middle of October, the policies pursued were as successful as could have been anticipated. The decline in discounts was followed by easier money rates in New York. The bond market strengthened and, influenced as well by high money rates abroad, foreign exchange rates recovered to a point where gold exports began.

"In the past three weeks the whole credit situation has been changes by a violent decline of stock prices. The result has been a reversal of the credit trends which had prevailed for two years--and the Federal reserve system now faces a very different credit situation from that which prevailed a few weeks ago. The major changes in the situation may be summarized as follows: (1) The demand for credit for speculative use, which for two years made necessary a system policy of protecting its credit, has subsided; (2) The conversion of over a billion dollars of brokers' loans from their account to bank loans has placed a considerable strain upon member banks and increased their borrowing at the reserve banks to a total of over $900,000,000; (3)

Business activity has continued to show some recession and there is threat of further recession due in part to some destruction of purchasing power and a disturbed business psychology, due to stock market liquidation.

"These changes have taken place with great rapidity. For some days in fact the credit situation in New York appeared to be in a critical stage due to the huge burden put on the New York banks when other lenders in the stock market suddenly withdrew their funds and borrowers resorted to the New York City banks. This occurred at a time when the security market was going through a panic which might easily have spread more generally to the banking situation. It was in these circumstances the Federal Reserve Bank of New York, on October 29, purchased about $100,000,000 of securities in order to make funds freely available to the money market--thus to minimize the possibility of an advance in rates which would have added materially to the difficulties of the situation. The daily changes are shown in the attached table.

"In the following two weeks, portions of these security purchases were turned over to the special investment account to make up the $25,000,000 a week of security purchases agreed upon at the last meeting of the committee and by the Federal Reserve Board in the event that bills could not be purchased in sufficient amount.

"Seasonal expectation--The seasonal expectation in the demand for Federal reserve credit is that this demand will remain relatively constant until the last week in November, and between that time and the end of the year it will increase nearly $300,000,000 due largely to Christmas currency requirements. In the absence of open market operations, it might be anticipated that this demand would lead to an increase in rediscounts of member banks from about $900,000,000 at present to about $1,200,000,000. Such a change would ordinarily be accompanied by somewhat more strengthened money conditions. After the end of the year it might be expected that the requirement for Federal reserve credit would decrease between $400,000,000 and $500,000,000. A part of the decrease after the first of the year would be absorbed by partial liquidation of

the system's portfolio of bankers' acceptances, and the remainder would be taken up by reductions in rediscounts or in holdings of Government securities.

"Condition of the Bill Market--The shift of funds from call loans to other employment has been accompanied by a large increased demand for bankers' acceptances as a consequence of which few bills have recently been offered to the reserve banks and total bill holdings have declined during the period when increase is usual. The present prospect appears to be that this increased demand for bills will continue for some weeks and the reserve system is likely to receive less than the usual offerings, so that little increase in the open market portfolio is to be anticipated from this source."

FEDERAL RESERVE BANK

OF NEW YORK

333.-b-1

CONFIDENTIAL

November 7, 1929.

Dear Governor Young:

At the meeting of our board of directors this afternoon, after discussing current conditions here, as well as the proposed meeting of the Open Market Committee next week, our directors unanimously adopted the enclosed resolution as an expression of their views as to what should be the policy of the System and this bank during the coming weeks.

The resolution speaks for itself, but it was the general sentiment of the directors that in the present circumstances we should proceed with the purchase of government securities, if, as now seems to be the case, bills are not available in adequate supplies, at a rate which will not only provide ample funds for the usual seasonal demands throughout the rest of the year but also permit of a reduction in the total volume of discounts in the System to a point where interest rates for commerce and business may become generally lower. It was their belief that unless this is done, after the events of the past weeks, there may be greater danger of a recession in business with consequent depression and unemployment, which we should do all in our power to prevent.

In the meantime and in order to maintain an orderly money market at suitable rates during this extraordinary period, we bought $17,000,000 of certificates of indebtedness today, as I discussed with you over the telephone this morning, $5,000,000 for

delivery today and $12,000,000 for delivery tomorrow. In view of all the unusual conditions which have prevailed here during the past several days and the need, even now, of avoiding any evidence of a money shortage or a rise in rates during this period of uncertainty, I think we should continue to make such purchases of governments in reasonable amounts as and when opportunity offers. I shall of course continue to keep you posted currently of any such transactions.

I hope, however, that it will be convenient to the Board to have an early meeting with the Open Market Investment Committee to discuss the future program of the committee and its operations for System account.

Faithfully yours,

George L. Harrison

George L. Harrison,
Governor.

Honorable Roy A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

Ex Minutes
AT BOARD MEETING.
NOV 25 1929

Submitted
AT BOARD MEETING.
NOV 8 1929

CONFIDENTIAL

RESOLUTION ADOPTED BY THE BOARD OF DIRECTORS OF THE FEDERAL RESERVE BANK OF NEW YORK AT ITS MEETING THURSDAY AFTERNOON, NOVEMBER 7, 1929.

It is the unanimous opinion of this board that, in the interest of maintaining business and employment, the policy of the Federal Reserve System and this bank for the coming weeks should be to keep a plentiful supply of money in the market through the purchase of bills, if available, and if not, then through the purchase of governments, in order that discounts of the Federal Reserve System may be reduced and at the proper time a further reduction of the discount rate effected, with the objective of securing lower interest rates for business throughout the country.

333.-f-1

10-29-29

The Board is definitely of the opinion that the most helpful thing at the present time would be a reduction in the discount rate of the New York bank to 5%, coupled, however, with an understanding that the System will suspend, for the time being, any purchases of Government securities, pending future developments in the credit situation as a result of the rate reduction, and further consideration and approval by the Federal Reserve Board.

Statement of policy adopted at meeting on October 29, 1929.

333.3
OM Invest
Comm.

October 1, 1929.

Dear Governor Harrison:

The Federal Reserve Board has reviewed the report and recommendation of the Open Market Investment Committee as of September 24, 1929.

The Board approves of your program to continue the purchasing of bills, and if necessary supplement the program by purchasing short-time Government securities for those reserve banks that desire to participate for the purposes mentioned in your recommendation, to wit:- "For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit." The Board, to this end, grants the authorization requested to purchase short-time Government securities at not to exceed $25,000,000 a week.

In authorising such purchases, the Board is approving mainly for seasonal reasons and such approval should not be interpreted as a reversal of former policies.

The Board welcomes and adopts the suggestion contained in the recommendation of the Committee that there be careful current review of the consequences of such purchases, and you will be advised promptly by the Board if at any time it believes that purchases should be discontinued or the procedure changed.

It is also agreeable to the Board that the Committee meet with it again at some date, later to be determined, but not later than November 1st.

Very truly yours,

R. A. Young,
Governor

Mr. George L. Harrison, Chairman,
Open Market Investment Committee,
c/o Federal Reserve Bank,
New York, N. Y.

Appd. See minutes
AT BOARD MEETING.
OCT 8 1929

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

Oct 1

~~September 25~~, 1929.

Dear Governor Harrison:

The Federal Reserve Board has reviewed the report and recommendation of the Open Market Investment Committee as of September 24, 1929.

The Board approves of your program to continue the purchasing of bills, and if necessary supplement the program by purchasing short-time Government securities for those Reserve Banks that desire for the purposes mentioned in your recommendation, to-wit:- "For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit." The Board, to this end, grants the authorization requested to purchase short-time Government securities at not to exceed ~~twenty-five million~~ $25,000,000. a week.

In authorizing such purchases, the Board is approving mainly for seasonal reasons and such approval should not be interpreted as a reversal of former policies.

The Board welcomes and adopts the suggestion contained in the recommendation of the Committee that there be careful current review of the consequences of such purchases, and you will be advised promptly by the Board if at any time it believes that purchases should be discontinued or the procedure changed.

It is also agreeable to the Board that the Committee meet with it again at some date, later to be determined, but not later than November 1st.

Very truly yours,

R. A. Young,
Governor.

AT BOARD MEETING.
OCT 1 1929

Mr. George L. Harrison, Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York, N. Y.

for those Reserve Banks that desire to participate

September 25, 1929.

Dear Governor Harrison:

The Federal Reserve Board has reviewed the report and recommendation of the Open Market Investment Committee as of September 24, 1929.

The Board approves of your program to continue the purchasing of bills, and if necessary supplement the program by purchasing short-time Government securities for the purposes mentioned in your recommendation, to-wit:- "For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit." The Board, to this end, grants the authorization requested to purchase short-time Government securities at not to exceed twenty-five million a week.

In authorizing such purchases, the Board is approving mainly for seasonal reasons and such approval should not be interpreted as a reversal of former policies.

The Board welcomes and adopts the suggestion contained in the recommendation of the Committee that there be careful current review of the consequences of such purchases, and you will be advised promptly by the Board if at any time it believes that purchases should be discontinued or the procedure changed.

It is also agreeable to the Board that the Committee meet with it again at some date, later to be determined, but not later than November 1st.

Very truly yours,

R. A. Young,
Governor.

Mr. George L. Harrison, Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York, N. Y.

Form 148

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE

WASHINGTON 2—9454 ofo

333.-b-1

October 22, 1929.

Calkins - San Francisco

Your letter October 16th enclosing copy of letter of October 8th to Harrison received. It seems to me that if as a System matter there is a strong opposition on the part of your directors to the Open Market program, you should make your views known to the Board. You will observe from my letter to Harrison of October 1st that Board has only entered into day to day program and if all Reserve banks do not approve of suggested action, Board is in position to reverse itself promptly.

Young.

FEDERAL RESERVE BANK OF SAN FRANCISCO

333-b-1

October 16, 1929

Mr. R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor Young:

I enclose herewith copy of my letter of October 8th to Governor Harrison, replying to his letter of October 2d, with which was enclosed a copy of your letter of October 1st, advising him that, "for the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit", the Board granted the authorization requested to purchase short time Government securities not to exceed $25,000,000 a week.

Yours very truly,

Geo. W. Cousins
Governor

Enclosure

see ans 10/22/29

Copy

October 8, 1929

Mr. George L. Harrison,
Governor, Federal Reserve Bank of New York,
New York City.

My dear Governor Harrison:

Acknowledging your letter of October 2d, enclosing copy of letter, under date of October 1st, from Governor Young advising the Open Market Investment Committee that the Board authorized "purchase of short time Government securities not to exceed $25,000,000 a week", we wish substantially to repeat the request made in our letter of August 14th; that is, we do not desire to be committed to participation in such purchases, but would be very glad if you would notify us by wire when and if such purchases are made for the System account in order that we may promptly advise you as to whether we shall participate or not.

Located as we are, far from the seat of operations, we are probably not as fully informed as would be desirable, and, perhaps, for that reason, are inclined to the view that there appears to be no occasion to purchase Government securities at the present time.

Yours very truly,

Jno. U. Calkins (signed)

Governor

September 25, 1929.

Dear Governor Harrison:

The Federal Reserve Board has reviewed the report and recommendation of the Open Market Investment Committee as of September 24, 1929.

The Board approves of your program to continue the purchasing of bills, and if necessary supplement the program by purchasing short-time Government securities for the purposes mentioned in your recommendation, to-wit:- "For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit." The Board, to this end, grants the authorization requested to purchase short-time Government securities at not to exceed twenty-five million a week.

In authorizing such purchases, the Board is approving mainly for seasonal reasons and such approval should not be interpreted as a reversal of former policies.

The Board welcomes and adopts the suggestion contained in the recommendation of the Committee that there be careful current review of the consequences of such purchases, and you will be advised promptly by the Board if at any time it believes that purchases should be discontinued or the procedure changed.

It is also agreeable to the Board that the Committee meet with it again at some date, later to be determined, but not later than November 1st.

Very truly yours,

R. A. Young,
Governor.

Mr. George L. Harrison, Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York, N. Y.

333.-b.1
10-1-29

RESOLVED, that the Federal Reserve Board, having under consideration the recommendations of the Open Market Committee submitted on September 24, 1929, in the exercise of its powers of review and determination, interposes no objection to the additional purchase of bills by the Open Market Committee for System Account; providing, this is confined solely to the purchase of bills.

BE IT FURTHER RESOLVED, that the Board respectfully suggest for the favorable consideration of the Committee, a reduction in the bill rate of one-eighth per cent. on all maturities, in the belief -

(a) that it will increase the volume of bills, and thereby offset in a measure any increase in the cost of credit for seasonal uses.

(b) that it will bring the bill rate into better relationship with the discount rates at eleven of the Federal Reserve Banks of the System.

(c) that it would be helpful in avoiding the necessity of open market purchases of Government securities which in effect releases credit which has the least possibility of control.

BE IT FURTHER RESOLVED that the recommendation of the Committee requesting approval of the purchase of short-time government securities, be held under review, pending a reply from the committee to the suggestions contained in this resolution; or, if deemed advisable, a conference with the Board.

Submitted by Mr. Cunningham
See minutes.

AT BOARD MEETING.

OCT 1 1929

3333
OM Invest. Comm.

FEDERAL RESERVE BANK
OF NEW YORK

(4)

September 30, 1929.

Dear Governor Young:

While I was not present last Thursday at the meeting of our directors, I understand that the report of the Open Market Investment Committee, now pending before the Federal Reserve Board, was considered and approved by the directors who authorized the officers to participate in any purchases made in accordance with the terms of the report, subject to its approval by the Federal Reserve Board.

At the meeting of our executive committee this afternoon, when it was reported that the Board had not yet acted upon the report, the directors reviewed further the considerations which to them make it seem important that the Open Market Committee be given the authority recommended in the report in order that the committee may be prepared as and when it may seem advisable to supplement the purchase of bills by the purchase of government securities.

The directors realize, of course, that limited purchases of government securities at this time will not of themselves result in any immediate reversal in the general trend of interest rates. They believe that if we buy government securities in this market the proceeds would in all probability be applied first to the reduction of discounts at the Federal Reserve Bank of New York, just as proceeds of the

purchases of bills have made it possible for our member banks to reduce their borrowings, and that as long as we have an effective discount rate the proceeds of such purchases would not be made the basis of an expansion of unnecessary credit. The experience of the past six or eight weeks, in which all collateral loans as well as loans to brokers have been reduced by our member banks, demonstrates that they are seeking to reduce their discounts rather than to use any new Federal reserve credit as the basis of a further expansion of speculative credit. If this process is continued, as we think it probably would be, by our open market operations in bills or government securities, and if as a result rates tended to decline in this market, funds would probably then be withdrawn from New York by banks and others, rates would tend to stiffen again and our member banks would find it necessary to step in to relieve the pressure and again to increase their borrowings from us. Further open market operations would then be necessary, if it seemed advisable at the time, to repeat the process, thus indicating that only by this sort of slow see-saw procedure is it likely that we shall eventually approach a condition of easier rates.

With all this in mind and realizing that at best it will be a slow process, our directors are of the opinion that the Open Market Investment Committee should now be given authority, in order that it might be prepared as soon as circumstances referred to in its report warrant, to supplement the purchase of bills with purchases of government securities. This they think is advisable in order that we may, as speedily as may be consistent with safety, facilitate the reduction in the total volume of discounts throughout the Federal Reserve System which they believe to be

a necessary forerunner of an ultimate ease in the present credit situation.

In this connection it was pointed out that there is now evidence that, while larger corporations seem to be in a position to obtain funds which they need by new capital issues, it is becoming increasingly difficult for smaller business men and farmers to obtain necessary credit. They also referred to the fact that it now appears that high rates of interest are having a serious effect upon new building projects, have substantially closed our bond markets to European borrowers, and have contributed largely to the need for continued and repeated increases in discount rates abroad. All of this they feel will ultimately react against foreign purchasing power for our goods with the possibility of serious ill effects upon American business and agriculture.

In conclusion, they believe that both the domestic and international situation make it seem advisable for the System to continue open market operations in bills, and, if necessary, in governments, at a rate which will permit of a continued reduction in member bank discounts, and thus gradually to pave the way for an ultimate ease in interest rates which is now becoming more and more important to the world at large.

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

Hon. R. A. Young,
Governor, Federal Reserve Board,
Washington, D.C.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date September 25, 1929

To Federal Reserve Board (Individually)

Subject:

From Mr. McClelland.

2—8895

9/24/29

There is attached hereto copy of the preliminary memorandum on credit conditions (charts not included) which was considered by the Open Market Investment Committee at its meeting yesterday, together with a copy of the recommendation which the Committee made to the Board.

The Committee has reviewed a preliminary memorandum and current credit conditions. During the past eighteen months interest rates in this country have gradually risen and money, especially for new undertakings, has become more difficult to obtain. While business continues at a high level, there are some indications of a possible impending recession.

Rates in many foreign centers have risen even more markedly and the loss of reserves of central banks threaten further increases in rates and probable curtailment of Europe's capacity to buy this country's products.

In accordance with the System policy adopted on August 8th seasonal requirements for Federal Reserve credit have been met by bill purchases, and in fact such purchases have been sufficient to reduce rediscounts to some extent.

For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit, the Committee favors a further increase of the open market holdings of the Federal reserve banks. It favors an increase of these holdings by the continued purchase of bills if they can be obtained in sufficient amounts to accomplish this purpose. If bills cannot be obtained in sufficient amounts without interfering with the present desirable distribution, it favors the purchase of Government certificates of the short maturities.

The Committee therefore recommends that it be authorized to purchase not to exceed $25,000,000 a week of such certificates, for account of such banks as care to participate, with the understanding that such purchases be made only under the conditions above stated, and with the further understanding that there be careful current review of the consequences of such purchases, in order that there may be another meeting with the Board at any time that that may seem advisable either to the Board or to the Committee. In any event, the Committee feels that there should be another such meeting not later than November 1.

The Committee has reviewed a preliminary memorandum and current credit conditions. During the past eighteen months interest rates in this country have gradually risen and money, especially for new undertakings, has become more difficult to obtain. While business continues at a high level, there are some indications of a possible impending recession.

Rates in many foreign centers have risen even more markedly and the loss of reserves of central banks threaten further increases in rates and probable curtailment of Europe's capacity to buy this country's products.

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For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit, the Committee favors a further increase of the open market holdings of the Federal reserve banks. It favors an increase of these holdings by the continued purchase of bills if they can be obtained in sufficient amounts to accomplish this purpose. If bills cannot be obtained in sufficient amounts without interfering with the present desirable distribution, it favors the purchase of Government certificates of the short maturities.

The Committee therefore recommends that it be authorized to purchase not to exceed $25,000,000 a week of such certificates for account of such banks as care to participate, with the understanding that such purchases be made only under the conditions above stated, and with the further understanding that there be careful current review of the consequences of such purchases, in order that there may be another meeting with the Board at any time that that may seem advisable either to the Board or to the Committee.

Correspondence

September 23, 1929

In any event, the Committee feels that there should be another such meeting not later than November 1st.

Submitted

BO

SEP ~~25~~ 24 1929

Sent Special Delivery
9/27/29

333-b-1

September 27, 1929.

Dear Governor Hamlin: See 9-24-29

I am sending you herewith (1) Preliminary memorandum of the Open Market Investment Committee; (2) Statement and recommendation of the Open Market Investment Committee and (3) Letter which I have dictated to Governor Harrison. 9-25-29

See 10-1-29

I would appreciate it very much if you would read the preliminary report bearing in mind that the conclusions arrived at by some of the figures which are furnished are debatable. I do not mean by that that the figures are erroneous, but I do mean that similar figures taken a week earlier or a week later might show quite a different picture. Please also bear in mind that my letter to Governor Harrison has not yet been acted upon by the Board, or despatched to Governor Harrison.

I intend to present the letter to the Board just as soon as I can get an expression from various members. The Secretary of the Treasury has approved the letter; also the Comptroller of the Currency and Mr. Platt. Mr. James is opposed to buying any Government securities and Mr. Cunningham has not as yet committed himself. I was able to get Dr. Miller on the telephone but I was limited in what I could say over the phone and, therefore, I have no expression from him. I do not want to ask you to make an unnecessary trip to Washington and I would therefore appreciate it very much if you would call me as soon as you can tomorrow morning and let me have your views.

I have deliberately postponed action on the Committee's recommendation because I did not want to take advantage of anyone's absence, but I am afraid if it is delayed too long, it will subject us to just criticism.

With kind personal regards to both you and Mrs. Hamlin, believe me to be

Yours sincerely,

R. A. Young.

Hon. Charles S. Hamlin,

Mattapoisett, Massachusetts.

Preliminary Memorandum for the Open Market Investment Committee 333.-f-1

September 24, 1929.

Carded

At a meeting of the Governors of all Federal reserve banks at Washington, D. C., on August 7 and 8, the following resolution was adopted:

> "It is the judgment of the Governors that the demand for increased credit incident to the autumn requirements of crop moving and business should be met, so far as possible, by an increase of the bill portfolio of such banks as care to participate in bill purchases.
>
> "The Governors are also of the opinion that this procedure can best and most safely be undertaken, and with least risk of abuse in the use of Federal Reserve credit, under the protection of an effective discount rate in the New York district.
>
> "They are further led to this conclusion by the expressed belief that an increase in the discount rate of the Federal Reserve Bank of New York would necessitate increases in few, if any, of the other Federal reserve banks during the period of seasonal business demand; and the desire of the directors and officers of all other Reserve banks to avoid increases, if possible. It is, therefore, recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate."

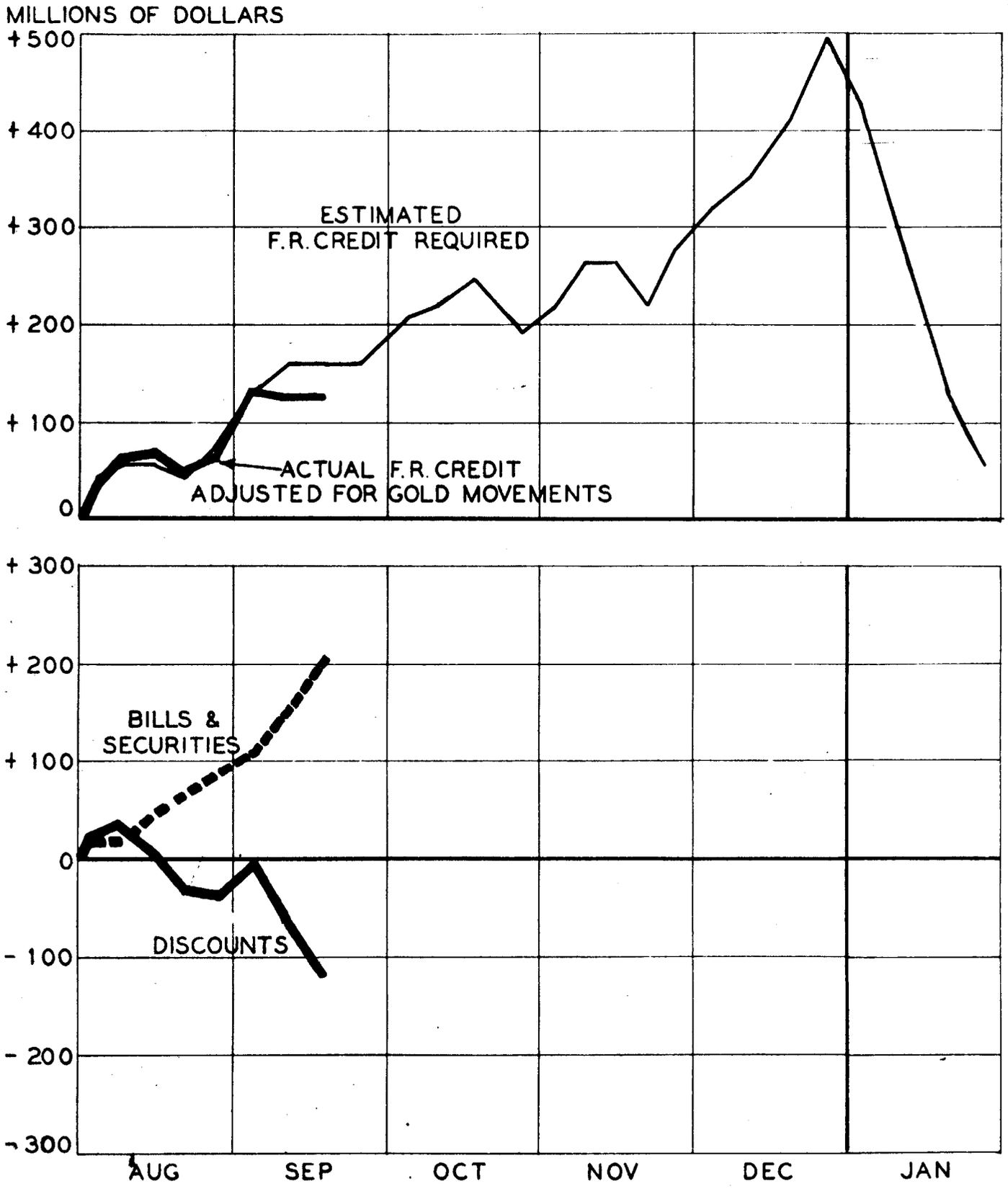
1

This resolution was approved by the Federal Reserve Board and on August 8 the Federal Reserve Bank of New York raised its discount rate from five to six per cent and reduced its buying rate for bills from 5 1/4 to 5 1/8 per cent.

In the six weeks which have elapsed since the adoption of the program, seasonal demands for Federal reserve credit have been entirely met by increases in holdings of bankers acceptances by the Federal reserve banks. In fact, from the statement of August 7 to that of September 18, the total amount of Federal reserve credit outstanding has increased $57,000,000, the amount of bankers acceptances held has increased $162,000,000, discounts of member banks have decreased $130,000,000, and holdings of government securities have increased $20,000,000, due to an increase in holdings of securities under sales contract.

333.-f-2

orig filed ~~333.3f~~ - meeting 9/24/29



Bill Holdings

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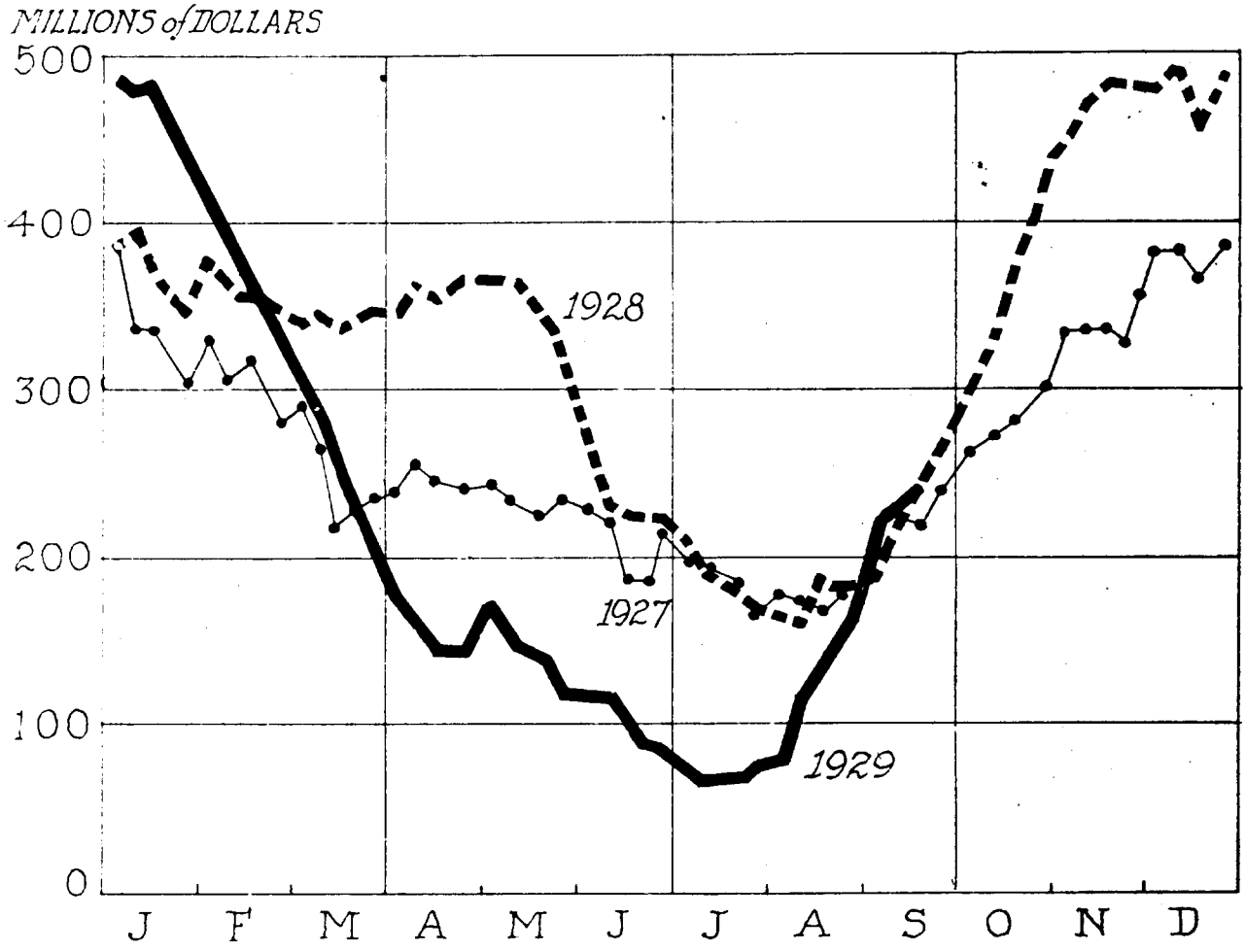


Bill Holdings of the Federal Reserve System

The statement for September 18 shows total bills discounted of $934,000,000, equivalent to 68.5% of total bills and securities, compared with $1,064,000,000 on August 7, equal to 81% of total bills and securities.

The accompanying diagram shows that the increase in the total of Federal reserve credit since the last week of July, when the seasonal expansion normally begins, has been in accordance with the normally to be expected increase on the basis of previous experience.

A second diagram shows the changes in System holdings of bankers acceptances for the past three years, and shows that during August System holdings increased more rapidly than last year, but since then have about kept pace with the figures for the past two years. During current week, however, there appears to have been a noticeable decline in the rate of increase in bill holdings.

It is still early to pass judgment fully on the effects of the policies adopted. The immediate psychological effect of the rate change passed quickly. Since then there has been some evidence that the economic consequences of these policies may be of considerably greater importance.

Effects on Money Rates The following table compares open market money rates on September 23 with corresponding rates in the first week of August and indicates that except for a slightly firmer tendency in commercial paper and in time money there has been no appreciable change in interest rates.

Money Rates at New York

	First Week August 1929	Sept. 20, 1929
Stock Exchange call loans	8 - 12	8
Stock Exchange 90-day loans	8 3/4 - 9	9
Prime commercial paper	6	6 1/4
Bills - 90-day unindorsed	5 1/8	5 1/8
Customers' rates on commercial loans	* 6.00	6.07
Treasury certificates and notes		
Maturing December 15	4.79	4.54
Maturing March 15	4.56	4.51
Fed. Res. Bk. of New York rediscount rate	5	6
Fed. Res. Bk. of New York buying rate for 90-day bills	5 1/4	5 1/8

* Average rate of leading banks at middle of August; July rate 5.80

An analysis of the rates actually charged by commercial banks to their commercial customers in the second district indicates practically no change in the rates charged by banks outside of New York City which are generally uniform at 6 per cent. In the cities 6% is the commonest rate. A slight movement upward is shown in the fact that fewer loans are made at 5 1/2 and 5 3/4 per cent, and possibly a few more are made at rates above 6 per cent. Thus the average of rates is fractionally higher on that account, continuing an upward tendency which has been reflected in an increase month by month from 5.50 per cent in February to 6.07 in September, as indicated by reports of ten New York City banks.

Effect in Member Bank Position Since the rate increase there has been little net change in the total loans and investments of reporting member banks, in spite of an increase of $230,000,000 in commercial loans. This increase has been about offset by a decline of $140,000,000 in collateral loans and $110,000,000 in investments. Brokers loans have continued to expand and are now $549,000,000 higher than they were early in August when the discount rate was increased. But this increase has been largely in loans for account of others and in face of a decline in the total loans on collateral by reporting member banks.

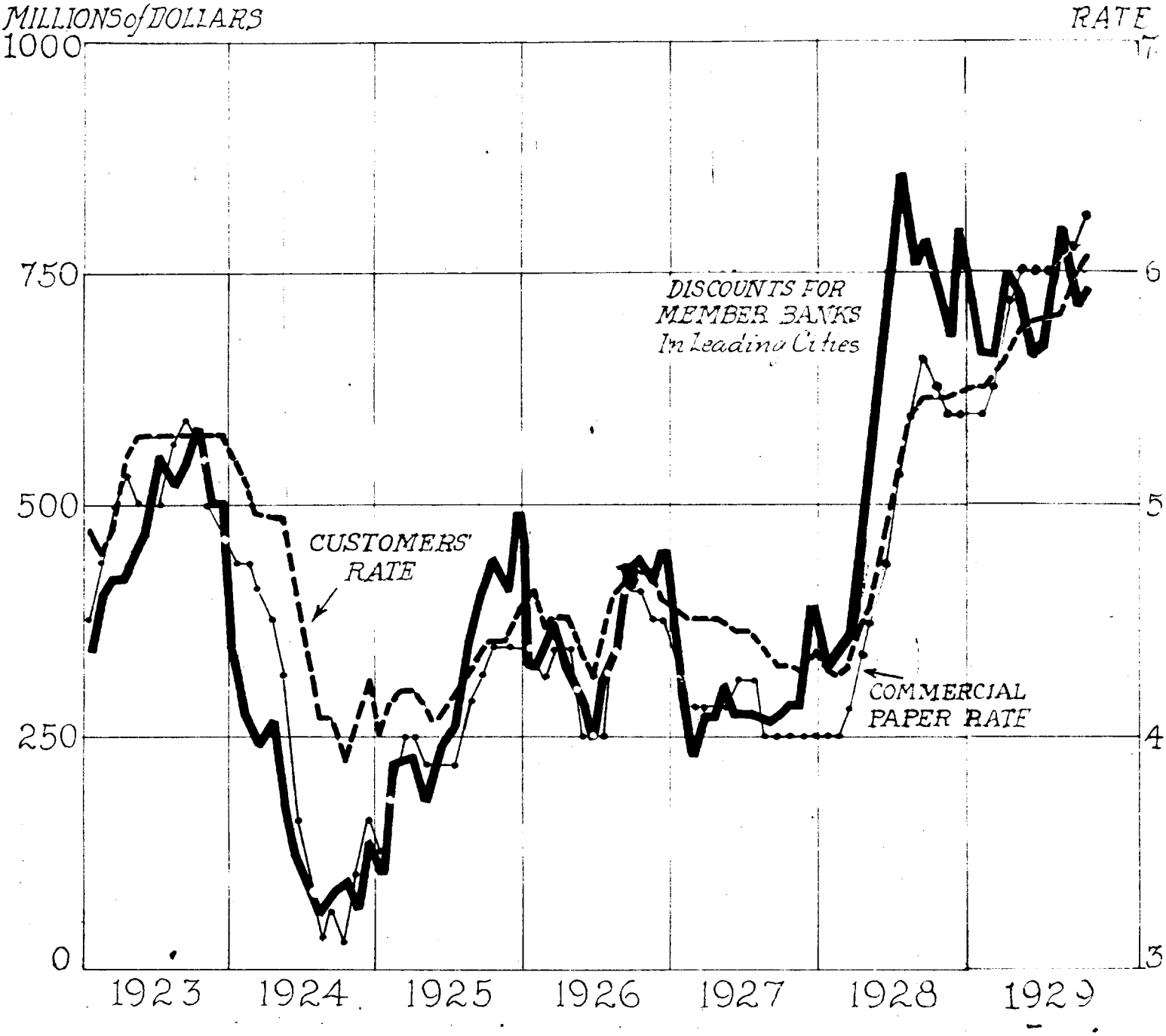
In a number of ways the statistics appear to reveal an attitude on the part of member banks generally. The following points are interesting.

1. Bank loans on collateral have declined during a period when brokers loans were rising steadily.

2. Funds made available to member banks by Federal reserve acceptance purchases in excess of seasonal needs were used entirely to reduce indebtedness at the Reserve banks. There was no increase in bank credit.

3. Decreases in rediscounts have not yet been reflected in any easing in money rates, although, as illustrated by the attached chart, we might expect that a continued reduction in total volume of discounts will ultimately tend to decrease interest rates.

All these appear to show an unwillingness of the banks to continue in debt and a vigorous and general attempt to liquidate this debt.



Money Rates and Discounts for Member Banks in Leading Cities

Effect on Movement of Funds Following the increase of discount rate at New York a considerable flow of funds from other districts was a possible danger which might have forced other Reserve banks to protect their reserves. In the week immediately following the rate change there was some movement to New York, but this was of short duration and was followed by a loss of funds following much the usual seasonal course.

This result is probably ascribable to the fact that the discount rate was already so far below market rates that the increase had little effect on market rates.

On the other hand funds made available by the purchase of acceptances have largely gone to liquidate discounts at the New York Reserve Bank and discounts at other Reserve banks have followed much the usual seasonal course. The rate change has apparently had little effect on the movement of funds between the United States and Europe. Confidential reports to the New York bank indicate a slight increase in foreign balances between the end of July and the end of August, but this increase cannot be attributed to higher rates in this market, for it took altogether the form of an increase in holdings of bankers acceptances and Treasury certificates the yields on which have not increased. There was, moreover, a decrease of $24,000,000 in the amount of foreign funds employed on time or call in this market, the first decrease that has occurred in this account for some time. It is perhaps significant that it accompanied a level of call money rates slightly lower than had prevailed for some months previous.

The European Situation The flow of gold from Europe has continued at about the same rate as before the policies of August 8 were adopted. Since that time the Bank of England has lost an additional $22,000,000 (mostly to France and Germany) of gold and its reserves have been reduced from £141,400,000 to £136,900,000. While there have been no marked changes in European money rates,

the indications are that the pressure upon Europe due to high money rates, is becoming constantly more intense and is tending to retard industrial and business development. August figures show an unseasonal decline in United States exports, though a single month's figures are not sufficient to indicate a trend. There is evidence of a backing up of wheat in shipping centers which is probably attributable in part at least to a restraint on the part of foreign buyers.

The Domestic Business Situation Business is still operating at a high level, above any of the computed "normal" lines based on previous years experience and allowing for growth. In recent weeks, however, there has been a declining tendency in a number of basic industries. Building activity has been reduced still further; automobile production has been receding, and steel production has reflected these tendencies. These recessions have not, however, progressed far enough to warrant definite conclusions as to the trend.

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Agricultural Conditions The size of the year's crops is expected to be generally smaller than a year ago. With higher prices the total return to the farmer may be not short of a year ago, but certain sections of the country have suffered severely through the drought. The continued pressure on the credit situation has also been reflected by increasing reports from some localities of difficulties of agriculture in securing an adequate supply of credit.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date Sept. 20, 1929.

To Governor Young

Subject: B.A.Y. 332.6-1

From Mr. Hamlin

2—8495

Dear Governor Young:

I am very sorry that it will not be possible for me to be at the Open Market Committee meeting on Tuesday. I do not understand, however, that any specific recommendation as to purchase of Government securities is to be made, but that there is merely to be a general discussion. I have always felt that it would be wise if we could have a material holding of Government securities in case of any future emergencies, but I can not see my way clear to advise that such purchases should now be resumed. I think the judgment of the Federal Advisory Council is decidedly against such action. I see no reason why we can not permit the purchase of acceptances to proceed along regular lines, and that might furnish some ease to the situation if it demands such an easing. Taking the years 1925, 1926 and 1927 in the latter part of September, the percentage of acceptances to total bills averaged 44% for the System and 47.8% for the Federal Reserve Bank of New York. On September 18 of this year, the acceptance percentage of total bills was only 10%, while at New York it had increased to about 30%. I think this shows that we can safely extend our purchase of acceptances much farther than we have done and still have the acceptances remain at a reasonable percentage of total bills. As I remember, one of the strongest arguments used by Governor Harrison for increasing discount rates, was that the

percentage of discounts to bills had become so large. That percentage now has been materially reduced. On August 10 of this year, the discounts constituted 80% of the total bills, while on September 19 that percentage had fallen to 52%.

If you find, however, when you return on Monday, that any immediate decision is demanded, and will telephone me, I will cancel the engagements I made some time ago, and will return and be here Tuesday.

Very sincerely yours,

C S Hamlin

333.41

August 23, 1929.

Dear Governor Harrison:

Your letter of August 16th, addressed to Governor Young, has been brought to the attention of the Board and the members were very much interested in the report which you made to the Governors of the other Federal Reserve banks, regarding your bill and discount transactions last week.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Mr. George L. Harrison, Governor,
Federal Reserve Bank,
New York, N. Y.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date August 22, 1929.

To All Members of the Board

Subject: 333-b-1

From Mr. McClelland

G.P.O. 2—8495

At the meeting this morning, there was ordered circulated the attached letter dated August 16th from the Governor of the Federal Reserve Bank of New York, transmitting a report of bill and discount transactions last week, which he made to the Governors of the other Federal Reserve banks.

Governor Young
Mr. Platt
Mr. Hamlin
~~Mr. Miller~~
Mr. James
Mr. Cunningham
Mr. Pole

Please return to this office for filing.

3332 f-1

FEDERAL RESERVE BANK
OF NEW YORK

August 16, 1929.

Dear Governor Young:

I am enclosing herewith for your information a copy of a letter which I have dispatched today to each of the other Federal reserve banks and which, in a large part, confirms what I have already told you and the Board with respect to our bill and discount transactions this past week.

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

Hon. R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

Ordered Circulated
AT BOARD MEETING.
AUG 22 1929

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[illegible]

see ans 8/23/29

IDENTICAL LETTER SENT TO GOVERNOR OF EACH FEDERAL RESERVE BANK

August 16, 1929.

Dear Governor Harding:

With the published statement of the System out today, reflecting the changes after the first week's operations under the increased rediscount rate at this bank, I thought you might be interested in some explanation of our market operations during the week.

It was our thought that during the week our open market purchases of bills should be about $25,000,000, and that we should observe what effect that would have upon our rediscounts. In our operations we actually went somewhat beyond the $25,000,000 to about $55,000,000 increase in the bill portfolio, largely because of the fact that we were called upon by two of our foreign correspondent banks to dispose of about $21,000,000 of short bills. This had the effect of increasing our sales contracts almost by that amount. These transactions account for this week's reduction of Contingent Liability in the published statement. Several millions of the bills sold for foreign account have already run off and most of the balance will mature during the next two weeks. The balance of the increase was made through purchases anticipating for a few days the requirements of our foreign correspondents for reinvestment of their maturities, which are very heavy during this month.

It was by reason of these transactions that the increase in bill portfolio for the System was confined largely to this bank and the reduction in our discounted bills was doubtless larger on that account than it would otherwise have been. It is interesting that the combined figures of the System show that the reduction of total bills discounted, i. e., $56,000,000 was nearly equaled by the net increase in bills and Governments of $55,000,000. The reduction in discounts at this bank of about $99,000,000 exceeds the net reduction in the System's discounts by some $65,000,000. It would be interesting to learn whether the shift in the location of rediscounts represents to any extent a shift of borrowings from New York to other districts on account of our higher rate or whether in part it may represent transfers of funds to New York to protect market margins, or whether it is

merely an accentuated seasonal movement. Of course, transfers in this direction are not unusual for this time of month.

It is our present purpose to proceed very cautiously in voluntarily increasing the bill portfolio, if indeed any further net increase may be made during this week, or until the seasonal increase in the volume of bill credit becomes more important than is now apparent.

With kindest regards, I remain,

Very truly yours,

GEORGE L. HARRISON,
GOVERNOR.

W. P. G. Harding, Esq.,
Governor, Federal Reserve Bank of Boston,
Boston, Mass.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date August 10, 1929

To All Members of the Board

Subject: 333-b-1

From Mr. McClelland

2—8495

Carded

There is attached hereto a copy of the memorandum submitted at the meeting this morning by Mr. Miller, as a new temporary procedure with regard to the determination of buying rates of bills by the Federal Reserve Board.

It was voted that in the absence of a quorum of the Board, the Executive Committee, or in its absence, the active executive officer of the Board, should be authorized to approve changes in bill rates.

1. The successful application of the general lines of credit policy adopted by the Board at the conclusion of the recent conference with the Governors depends largely, if not mainly, upon the degree of accuracy with which purchases of bills are adjusted to the trend of conditions from week to week and possibly sometimes during short intervals.

2. The matter is one of too much importance, involving as it does the application of a national policy, to be left to the determination of the Reserve Bank of New York even though the great bulk of the bills will originate and be offered there. It should have the joint attention of the Federal Reserve Board and such other leading Reserve banks beside New York as can conveniently be consulted.

3. For this purpose some temporary working arrangement during the remainder of the year seems desirable. Later, when the Reserve System is on a more normal basis of operation, a change in the working arrangement can be made, better adapted to ordinary conditions. That is a matter that might well be considered at the autumn conferences of banks with the Board.

4. Change of rate being the method by which the flow of bills to the Reserve bank is chiefly regulated, constant attention will have to be given to the rate at which offerings of bills are coming under any given rate, with the view of determining whether they are coming too rapidly or

too slowly to satisfy the objectives of the System's autumn policy.

5. The bill rate should, therefore, be under constant review by the Board, with power in a committee or in the Governor of the Board to authorize and approve changes in buying rates in accordance with the views of the Board or in accordance with sudden changes of conditions which call for immediate action.

6. It is suggested that the Board should begin the autumn policy by determining the lower limit of the buying rate of bankers acceptances at 5 per cent - this rate to remain in effect until changed by joint action of the banks and Board. Changes in the actual buying rate above the 5 per cent rate could, as suggested above, be made by a committee of the Board or by the Governor alone, should the committee not be promptly available. In order that the committee should be fully informed on conditions suggesting a change of rate, the Governor should keep in close touch with Reserve banks as far as practicable.

7. Consideration should be given to the authorization of buying rates under 5 per cent in districts outside of New York on acceptances originating within the districts, as long as they have 5% rate

August 10,1929.
A.C.M.

333.-b-1

X-6356

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS.

August 8, 1929.

For immediate release: Carded

The Federal Reserve Board announces that the Federal Reserve Bank of New York has established a rediscount rate of 6 per cent on all classes of paper of all maturities, effective August 9, 1929.

Undeped copy filed 332.01(2)

333.-4-1

8/2/29

"It is the judgment of the Governors that the demand for increased credit incident to the autumn requirements of crop moving and business should be met, so far as possible, by an increase of the bill portfolio of such banks as care to participate in bill purchases.

The Governors are also of the opinion that this procedure can best and most safely be undertaken, and with least risk of abuse in the use of F. R. credit, under the protection of an effective discount rate in the New York district.

They are further led to this conclusion by the expressed belief that an increase in the discount rate of the Federal Reserve Bank of New York would necessitate increases in few, if any, of the other Federal reserve banks during the period of seasonal business demand; and the desire of the directors and officers of all other reserve banks to avoid increases, if possible. It is, therefore, recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate."

(11)

See Minutes
AT BOARD MEETING.
AUG 8 1929

9 to 1

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[Aug 8, 1929]

333-b-1

8/7/29

Carded

NOTES TAKEN AT JOINT MEETING WITH

THE GOVERNORS OF THE FEDERAL RESERVE

BANKS ON AUGUST 7, 1929.

(NOT A VERBATIM REPORT)

A. M.

8/7/29

GOVERNOR YOUNG

One of the Federal reserve banks is contemplating action and the Board would like the benefit of the views of the various Governors as to what effect that or other action might have in their own districts and how they feel about it as a national problem, or any suggestions that they might have to make to the Board. Since May, there has been an increase in bank credit, security loans have gone up practically $600,000,000 and commercial credit has advanced about $160,000,000. This appears to be a very rapid pace.

In recent discussions, several suggestions have been made: (1) that the System do nothing, taking care of seasonal requirements through rediscounts or bills; (2) that the System deliberately ease the situation by reducing the bill rate to a point where it will accumulate bills and at least maintain rediscounts where they are; (3) that the System ease by going into the market to purchase Government Bonds if it feels bills are not working quickly enough; (4) that the System lower the bill rate, accumulate bills and also purchase Government bonds; if such action invites speculative demand to any great extent, raise the rediscount rate, not at the moment, but later; (5) Reduce the rediscount rate and do nothing in the market, and (6) Raise the rate in the larger centers and simultaneously reduce the bill rate, possibly going so far as to buy some Government securities, thus building up the bill portfolio and reducing the large line of rediscounts.

GOVERNOR GERRY

QUESTION:- Which plan appeals to you, and if put into effect, what would be the probable action of your own directors with reference to the discount rate on open market operations?

ANSWER: - My feeling was that we should have raised the rate last Spring, and if we had, we could probably have reduced it by now. I should say the plan now should be either the one of easing by purchasing Governments and lowering the bill rate, raising the rate later if that induced speculation, or else, the proposition of raising the rate first and simultaneously reducing the bill rate and buying Governments. I very much doubt whether our directors would be willing to make any change in our rate at the present time, regardless of what might be done in the East.

QUESTION: - If some of the banks should raise their rates to six per cent, how seriously would it affect you?

ANSWER: - I don't think it would be any worse than last year. If it caused any trouble, because of Chicago having a six per cent rate, I think our directors would raise to five and one half percent, but not above that.

GOVERNOR HARDING

Early in the Spring we were anxious to raise the rate with a view of reducing it at this time. I do not think any one on our Board is now in favor of raising the discount rate, but we are in favor of reducing the bill rate to say 4 3/4%. Some feel that we should buy Governments, but I would prefer buying bills. That is the most reasonable way of easing the situation. If New York should raise their rate, we might possibly be forced to raise ours, but our inclination would be to put it off as long as possible, and let our resources drop, so that when we did make a change our member banks would see that we were obliged to do it in order to protect our resources. I believe a reduction in the bill rate would have a helpful effect and enable Boston city banks to pay us off.

GOVERNOR SEAY

Earlier in the year I felt it would have been advisable to raise the discount rate. Now, however, I feel we are in the maelstrom and it is more difficult to take action. Whatever is done now by the System will have a more critical effect on business than earlier. In our district there has been no increase in volume of loans during the past year, but some shifting from commercial to security loans. Before coming here, my feeling was that we had better go along as we are. If anything, we might somewhat slightly reduce the bill rate in order to facilitate the movement of crops, but I have had a feeling that it would be somewhat hazardous to even reduce the bill rate. It might result in having the holdings of foreign banks ~~drawn~~ TURNED over to the Federal reserve banks. I am personally opposed to the purchase of Governments and doubt very much if our bank would participate unless the Board expressed a firm desire that it should be a System policy. Member banks should be made to realize that it is a situation in which they have gotten themselves, and the responsibility is upon them. There appears to be some indication that the funds at the disposal of "others" have been utilized as far as they can be spared. Perhaps we have a better hold on the banks than at any time before. The public will absorb all of the funds they can get hold of. If we should buy bills too freely, we could not absolutely control the use of the funds. If rates generally were easy, I believe the disposition of the public would be to go further into the market. There would be some consistency to a raise in the discount rate and an easing of bill rates, but I am unable to see how any good can be accomplished at this time in view of the financing that is to be done. I am more inclined toward preserving the present situation than toward any other alternative. If the other Federal reserve banks should raise their rates, we would not have to follow at once. I think we would be satisfied to remain as we are.

DEPUTY GOVERNOR McKAY

We are unable to see any necessity for doing anything at the present time. We feel that member banks can get all of the credit they need by rediscounting at 5%. Last year the System bought about $330,000,000 of bills. During the same period, stock market loans increased $2,000,000,000. We feel that the bill market should be left where it is. It is now a little lower than it was before. Grain merchants, who are using bills, are getting money at 6%. We feel that the opportunity to raise the discount rate has passed, and that it is very questionable whether it would be good policy to do so at this time. We have never loaned more than $70,000,000 for crop moving. That does not seem to affect us very much. I think our Board feels that we should go along as we are, and if something should occur during the next thirty days, we can apply what ever remedy is necessary. We feel that the pressure should be kept on the member banks that are borrowing and have collateral loans. The policy of buying bills and putting money in the market would relieve the pressure and ease the situation as regards stock market borrowings. It would encourage more speculation. We feel that we should do nothing right now and let the rediscount and bills ~~rates~~ come as they will.

GOVERNOR CALKINS

I looked with favor on the proposal to raise the rate this Spring. I feel now that the proposal to raise the discount rate in the principal centers and lower the bill rate through the System, while an experiment, as anything we could do will be an experiment, and will ~~would~~ meet with criticism, would be a reasonable program. Our directors, I think, would not change our rate at the present time, but would await developments. We would, however, follow the bill rate.

GOVERNOR MARTIN

The plan to leave things as they are would appeal to our district. If rates are raised in New York and Chicago, based on previous experience, we would immediately have to raise our rate in St. Louis.

(Governor Martin - Continued)

QUESTION:- If the discount rate were raised and the bill rate reduced, attracting bills, would that be any relief to you?

ANSWER: - I think not.

GOVERNOR BLACK

I gathered from the Board's recent letter that there was a feeling that it might be entirely proper to ease the present money situation by purchasing bills or securities. I am inclined to think that that suggestion was correct. I think the national situation would be relieved by judicious purchases. If it led to further excessive speculation that would have to be corrected when it arose. Our district, of course, is indirectly affected by the national situation. High rates affect us adversely. If the Board could ease the general situation, I think it should do it. Unless you could judiciously relieve the situation, through a reduction in bill rates if necessary, I would be in favor of doing nothing.. At a recent meeting, our directors expressed themselves as being opposed to any increase in the discount rate in our district. Our rediscounts are now at a high point. If the rate was increased in the large centers we would not immediately increase, but I think the effect would ultimately force us to do so.

GOVERNOR TALLEY

(He commenced reading from the memorandum submitted to his board of directors last May, suggesting a policy of easing through the bill market, accompanied by an increase in discount rates.)

Our directors would be opposed to a rate increase if the other banks raised. We are within thirty days of our liquidation. Through that period of liquidation, one of the most helpful things would be a sale of bills. The lower the rate the more helpful it would be because in our district the amount of crop moving funds is very clearly - - - - . When credit begins to ease

(Governor Talley - Continued)

at the point of production the banks begin to buy bills. If the rate was too low it would not be attractive. With bills at present levels, banks would buy substantial amounts. If our liquidation did not go along normally I think our directors would be disposed to raise our rate even though the other Federal reserve banks maintained theirs, in order to clean up the liquidation. I think if New York feels that they need a 6% rate they should take the responsibility. From a selfish standpoint, the purchase of Governments would help us most because it would help the price of Governments and enable some of our over-invested banks to liquidate. However, I think the sixth proposition would be the best.

GOVERNOR FANCHER

If we were to simply consider the situation in the Fourth District, the first proposition would be the one to appeal to us. Our own situation is very comfortable. Looking at the situation at large, whatever action is taken by the Federal Reserve System will create a good deal of adverse comment and it would seem that the sixth proposition is the best fitted. If New York and Chicago have a six per cent rate we would be forced sooner or later to raise our rate. We would not immediately do so because of the large reserve we have, but our Board would watch developments. I think we should probably get back to our former policy so that the bill rate bears some proper relation to the discount rate. I would be rather adverse to buying Governments but I would buy bills to see the effect. I would rather see the bill portfolio built up than to see member banks borrowings increase.

GOVERNOR NORRIS

Our local situation is different from what it was in the Spring. Our reserve is now 78% and discounts are about $32,000,000 lower than a year ago, although an expansion in security loans has taken place. Personally, I would

(Governor Norris - Continued)

like to see the discount rate increased because it is out of line, because it would tend to keep member banks from being continuous borrowers and because it would very greatly help member banks in refusing to make further security loans to ~~other~~ THEIR customers. I do not think our Board would vote to increase at this time, however, because of the strong position of the bank and because right at this time it would be an inopportune thing to do. I think there would be a disposition to recommend an increase in New York, and if it had the effect it probably would have, I think they would be ready to increase our rate. I question whether an increase at once would be adopted. I would favor an increase in the bill portfolio of the System as I do not think our bill holdings should fluctuate so greatly. I do not favor the purchase of Government bonds except as a last resort to meet an acute crisis because that would directly reduce the investment account of member banks and I am afraid, under existing conditions, instead of applying the proceeds to paying us off, they would be tempted to put them into the call loan market. I think, however, nearly every member of our Board would favor easing of the bill rate.

GOVERNOR BAILEY

We have gotten past the wheat harvest and pretty soon will get our cattle liquidation. From our standpoint, we would like to be let alone. We did not advance our rate when most of the other banks did and then only out of sympathy with the System movement. We were criticised for advancing to 5% ~~the rate~~ RIGHT at the beginning of the season. I think we would prefer to reduce the bill rate but ~~let~~ leave the discount rate where it is. I do not think we would have any trouble in maintaining our rate if the larger centers should increase. I do not think the increase would affect us at all. Our directors would, however, go along with any System policy.

GOVERNOR HARRISON

At the present time the System portfolio is 85% rediscounts, a higher ratio than at any time since 1921. That is largely responsible for the high rate position and prospects are for still higher rates. If we do nothing, the member banks must meet fall requirements through rediscounts and ~~in~~ NOT Open Market operations. Bill rates are higher than of a year ago in every FOREIGN market except one. In addition, there has ~~not~~ been any advance in rediscount rates. ~~At~~ practically all European banks. They have been required to so, not because of inflation or over-expansion, but because they have suffered loss of reserves. Since January, eleven principal banks have lost around $380,000,000 of gold and exchange, mostly foreign exchange. There has been a reduction in their deposits and notes of about $500,000,000 during the same period. The prime cause of their difficulties is the high rates in this country and the necessity for their buying dollars to meet payments on their balances of trade. The problem of the System is how we can get back to a lower interest basis in New York, Reducing the call rate and ~~abandon~~ opening the ~~open~~ bond market which will enable Europe to get some funds by borrowing. I cannot see any solution not open to some objection. I think doing nothing is as much a responsibility as either a policy of pressure or ease. If we do nothing we may force a further disorganization of our portfolio in view of the need of additional Federal reserve credit this fall, and that would inevitably result in further pressure on member banks and a still further tightening of interest rates. The question is how are we going to provide what is needed without inviting a further demand for speculative purposes. I think it would be desirable to have a lower bill rate and facilitate the acquisition of more bills such as we did last Fall. How can we get them without inviting a new demand for speculative credit? We could reduce bill rates arbitrarily, we could increase the discount rate or

(Governor Harrison - Continued)

we could do both. The purchase of Governments would be a signal for the market to go ahead. Some feel even if we attempt to operate through a reduction in bills rates, the same conclusions would be drawn. How can we give the country the $300,000,000 it needs without at the same time creating a new demand for credit, which would prevent the new funds from being applied to a reduction in rediscounts. My own thought is to adopt the sixth proposition, doing two seemingly inconsistent things at the same time. If we feel rediscounts are too high and we must put out more funds, an effective rate would encourage member banks to apply the new funds to a reduction in rediscounts. I think New York member banks would like to reduce their debt. Normally, an increase in rediscounts makes for further pressure on member banks. Most banks in New York are now charging 6% to their best customers and 5 3/4% to some preferred borrowers, which would probably be increased to 6%. Some 6% customers might be increased to 6 1/4%, although some bankers do not think so. The increase in the rediscount rate would be merely a barrage under which we could give banks funds and avoid an increase in rediscounts. I think other Federal reserve banks should give that consideration in considering the effect on them of an increase in our rate. What would be the effect no one can say with certainty. No one can say what is the right course. I think this course has the least risk. It is most essential, I think, that the System should be in agreement and doubt if I would recommend any action by our Directors which would not have a fair chance of approval by the System and the Board.

MR. MILLER.

In my opinion, we should ~~study what we have to do to~~ STAY WHERE WE ARE BUT be prepared to move on indications. I would say do nothing until we have stronger indications than at the present time that we need to move.

MR. HAMLIN

I would favor the sixth proposition if the other Federal reserve banks would feel that they would not change their rates immediately and would have a fair chance of maintaining them.

MR. CUNNINGHAM

I am against any increase in rates. I do not see how the increase in rate would be helpful in a policy designed to help business and agriculture.

P.M.

Mr. Miller suggested that inasmuch as the principal point is the question of an increase in the New York rate, an expression be given by the different districts as to how they feel about it. Not what they would do, but whether they would like to see New York go to 6% with a simultaneous reduction in the bill rate.

Governors Harding, Geery, Talley, Bailey, Fancher, Norris Calkins and Harrison expressed themselves as favoring action by the New York Bank.

Governors Seay, Black and Martin expressed themselves as opposed to it.

Mr. McKay did not express himself.

Governor Harding then made the following statement: "The main question seems to be one local to New York, as well as a National question. I think the New York Bank should raise its rate to 6% and such action should be accompanied by a change in the present policy regarding bills, with a gradual reduction in the rate which I would like to see go down to 4 3/4%. Should the System acquire $250,000,000 or $300,000,000 of bills by January 1st, we would have something with a definite maturity and would not be put to it to sell on the market like we would if we had Governments. It might affect foreigh holdings of bills somewhat, but I feel very strongly that the first thing to be done must originate in New York. Six percent is a kind of maximum rate that a bank can charge a good customer and I agree with those who feel that a 6% discount rate will not mean any material advance in commercial rates. I do not believe an increase in New York would mean that Philadelphia

and Boston are going to be loaded up with offerings from New York. I am confident that we can maintain our 5% rate. Not a single director is in favor of increasing the rate. Our member banks are afraid of having to use pressure and increase their rate on deposits. I think we can hold them in line by pointing out that an increase in collateral loans may mean an increase in our rate which may result in their having to increase their rate on deposits. If the New York directors feel that it is necessary to increase the rate as a local proposition, I do not believe it should be turned down.

GOVERNOR NORRIS

I think our Board would be of the opinion that if we went all through last spring with a 5% rate and a 55% reserve, it would be absurd to increase to 6% with a 78% reserve. Our position would have to be very radically altered before our Board would favor any increase. I think we might go to 55%.

GOVERNOR FANCHER

I think that would be the attitude of our Board. We could be considerably poorer without an increase in rate. If our reserve got below 60% we would give it serious consideration.

MR. MC KAY

I cannot say. Our Board might embrace the opportunity to ask for a raise in rate. It would only be a question of time until our reserve would go down and we would have to raise.

GOVERNOR SEAY

I do not believe it would have any immediate effect in our district except to create apprehension that our bank would follow. I voted against it because I have very great hesitancy in saying that the Federal Reserve Bank of New York should raise its rate. I believe it would be better and wiser policy for the New York Bank to maintain its present position with respect to the bill rate, as well as the discount rate. The money put out around July 1st has stayed out because it could not be gotten back. If the New York Bank lowers its bill rate and as a result the System takes in a considerable quantity of bills which results in relaxation in the money market, and member banks pay off a considerable amount of their borrowings, I think it is certain that later on if pressure is exercised against the New York banks to increase their security loans they will do it. It seems to be assumed that the System will get the bills whether we lower our rate or not.

GOVERNOR YOUNG

I personally believe that if New York raises its rate, Chicago, Philadelphia, Boston and other large banks will have to raise too.

GOVERNOR HARRISON

If a 4 3/4% bill rate were adopted, would it tend to avoid an increase in the discount rate or to encourage it? Too many bills might tend to avoid distribution and force an increase in rate. Would not a 5% rate be better?

GOVERNOR HARDING

I would be satisfied with a 5% rate, and feel that we should go down gradually.

GOVERNOR MARTIN

What would be the effect on your bank if New York should raise and Chicago, Philadelphia and Cleveland should not? With our reserves as they now are, the immediate effect would be to compel us to raise our rate. We are affected by both New York and Chicago. I also believe the increase would have an adverse effect on business, because it would be expecting a general increase in rates of other Federal reserve banks. I do not believe a reduction in the bill rate would have any effect, as our district doesn't use acceptances. We would not change our rate immediately but I feel sure we would have to.

GOVERNOR BLACK

I should think that in a short time we would be forced to a 6% rate.

In reply to an inquiry by Governor Young, both Governors Martin and Black expressed the opinion that they would be in favor of a change in rate before rediscounting with another Federal reserve bank.

GOVERNOR CALKINS

My feeling is that probably the Federal Reserve Bank of San Francisco could go through without an increase even if the banks in the principal centers raised to 6%.

MR. MILLER

Suppose we get six or seven of the banks up to 6% and take $300,000,000 of bills, what would you propose to do with them at the end of the year - let them run off?

GOVERNOR HARRISON

I can see no reason for not letting the bills take the normal course this year, that is, to run off after the middle of December or January.

MR. MILLER

I feel that the 6% rate could be justified in New York as an international money center, but when it becomes a governing factor in the fixing of the discount rates in other districts, to me it has insurmountable difficulties.

MR. JAMES

I would not vote for an increase in discount rates. If I had the assurance from the eleven other Federal reserve banks that they would not go above 5% until their reserves got down to 45, then I would give it some thought.

MR. MILLER

I would not reduce the bill rate now and disturb the present distribution. A rate of 5 1/8 or 5% should get all the new bills that are made beginning about September 1st for the purpose of financing fall requirements.

GOVERNOR YOUNG

I would say that it is the majority opinion of the members of the Board present that we should not do anything at the present time, other than reduce the bill rate.

MR. MILLER

Unless we can work out a discount policy for the System as a whole, I would be disposed to go along with the New York program, if there is an undertaking by the other reserve banks that they will hold their situations tight. As far as I am concerned, I would vote for New York with the understanding that all of the others do not change unless there are developments in the situation that are new.

GOVERNOR SEAY

I am satisfied that Richmond can maintain a 5% rate unless some National situation arises in the meantime, and it would be our disposition to do so.

333-f.1

8/7/29

GOVERNOR YOUNG

One of the Federal reserve banks is contemplating action and the Board would like the benefit of the views of the various Governors as to what effect that or other action might have in their own districts and how they feel about it as a national problem, or any suggestions that they might have to make to the Board. Since May, there has been an increase in bank credit, security loans have gone up practically $600,000,000 and commercial credit has advanced about $160,000,000. This appears to be a very rapid pace.

In recent discussions, several suggestions have been made: (1) that the System do nothing, taking care of seasonal requirements through rediscounts or bills; (2) that the System deliberately ease the situation by reducing the bill rate to a point where it will accumulate bills and at least maintain rediscounts where they are; (3) that the System see about getting a new market to purchase Government Bonds if its Fall bills are not working quickly enough; (4) that the System lower the bill rate, accumulate bills and also purchase Government bonds; if such action invited speculative demand to any great extent, raise the rediscount rate, not at the moment, but later; (5) Reduce the rediscount rate and do nothing in the market, and (6) Raise the rate in the larger centers and simultaneously reduce the bill rate, possibly going so far as to buy some Government securities, thus building up the bill portfolio and reducing the large line of rediscounts.

GOVERNOR GEERY

QUESTION:- Which plan appeals to you, and if put into effect, what would be the probable action of your own directors with reference to the discount rate on open market operations?

ANSWER: - My feeling was that we should have raised the rate last Spring, and if we had, we could probably have reduced it by now. I should say the plan now should be either the one of easing by purchasing Governments and lowering the bill rate, raising the rate later if that induced speculation, or else, the proposition of raising the rate first and simultaneously reducing the bill rate and buying Governments. I very much doubt whether our directors would be willing to make any change in our rate at the present time, regardless of what might be done in the East.

QUESTION: - If some of the banks should raise their rates to six per cent, how seriously would it affect you?

ANSWER: - I don't think it would be any worse than last year. If it caused any trouble, because of Chicago having a six per cent rate, I think our directors would raise to five and one half percent, but not above that.

GOVERNOR HARDING

Early in the Spring we were anxious to raise the rate with a view of reducing it at this time. I do not think any one on our Board is now in favor of raising the discount rate, but we are in favor of reducing the bill rate to say 4 3/4%. Some feel that we should buy Governments, but I would prefer buying bills. That is the most reasonable way of easing the situation. If New York should raise their rate, we might possibly be forced to raise ours, but our inclination would be to put it off as long as possible, and let our resources drop, so that when we did make a change our member banks would see that we were obliged to do it in order to protect our resources. I believe a reduction in the bill rate would have a helpful effect and enable Boston city banks to pay us off.

GOVERNOR SEAY

Earlier in the year I felt it would have been advisable to raise the discount rate. Now, however, I feel we are in the maelstrom and it is more difficult to take action. Whatever is done now by the System will have a more critical effect on business than earlier. In our district there has been no increase in volume of loans during the past year, but some shifting from commercial to security loans. Before coming here, my feeling was that we had better go along as we are. If anything, we might somewhat slightly reduce the bill rate in order to facilitate the movement of crops, but I have had a feeling that it would be somewhat hazardous to even reduce the bill rate. It might result in having the holdings of foreign banks drawn over to the Federal reserve banks. I am personally opposed to the purchase of Governments and doubt very much if our bank would participate unless the Board expressed a firm desire that it should be a System policy. Member banks should be made to realize that it is a situation in which they have gotten themselves, and the responsibility is upon them. There appears to be some indication that the funds at the disposal of "others" had been utilized as far as they can be spared. Perhaps we have a better hold on the banks than at any time before. The public will absorb all of the funds they can get hold of. If we should buy bills too freely, we could not absolutely control the use of the funds. If rates generally were easy, I believe the disposition of the public would be to go further into the market. There would be some consistency to a raise in the discount rate and an easing of bill rates, but I am unable to see how any good can be accomplished at this time in view of the financing that is to be done. I am more inclined toward preserving the present situation than toward any other alternative. If the other Federal reserve banks should raise their rates, we would not have to follow at once. I think we would be satisfied to remain as we are.

DEPUTY GOVERNOR McKAY

We are unable to see any necessity for doing anything at the present time. We feel that member banks can get all of the credit they need by rediscounting at 5%. Last year the System bought about $330,000,000 of bills. During the same period, stock market loans increased to $2,000,000,000. We feel that the bill market should be left where it is. It is now a little lower than it was before. Grain merchants, who are using bills, are getting money at 6%. We feel that the opportunity to raise the discount rate has passed, and that it is very questionable whether it would be good policy to do so at this time. We have never loaned more than $70,000,000 for crop moving. That does not seem to affect us very much. I think our Board feels that we should go along as we are, and if something should occur during the next thirty days, we can apply what ever remedy is necessary. We feel that the pressure should be kept on the member banks that are borrowing and have collateral loans. The policy of buying bills and putting money in the market would relieve the pressure and ease the situation as regards stock market borrowings. It would encourage more speculation. We feel that we should do nothing right now and let the rediscount and bill rates come as they will.

GOVERNOR CALKINS

I looked with favor on the proposal to raise the rate this Spring. I feel now that the proposal to raise the discount rate in the principal centers and lower the bill rate through the System, while an experiment, as anything we could do will be an experiment, and would meet with criticism, would be a reasonable program. Our directors, I think, would not change our rate at the present time, but would await developments. We would, however, follow the bill rate.

GOVERNOR MARTIN

The plan to leave things as they are would appeal to our district. If rates are raised in New York and Chicago, based on previous experience, we would immediately have to raise our rate in St. Louis.

(Governor Martin - Continued)

QUESTION:- If the discount rate were raised and the bill rate reduced, attracting bills, would that be any relief to you?

ANSWER: - I think not.

GOVERNOR BLACK

I gathered from the Board's recent letter that there was a feeling that it might be entirely proper to ease the present money situation by purchasing bills or securities. I am inclined to think that that suggestion was correct. I think the national situation would be relieved by judicious purchases. If it led to further excessive speculation that would have to be corrected when it arose. Our district, of course, is indirectly affected by the national situation. High rates affect us adversely. If the Board could ease the general situation, I think it should do it. Unless you could judiciously relieve the situation, through a reduction in bill rates if necessary, I would be in favor of doing nothing.. At a recent meeting, our directors expressed themselves as being opposed to any increase in the discount rate in our district. Our rediscounts are now at a high point. If the rate was increased in the large centers we would not immediately increase, but I think the effect would ultimately force us to do so.

GOVERNOR TALLEY

(He commenced reading from the memorandum submitted to his board of directors last May, suggesting a policy of easing through the bill market, accompanied by an increase in discount rates.)

Our directors would be opposed to a rate increase if the other banks raised. We are within thirty days of our liquidation. Through that period of liquidation, one of the most helpful things would be a sale of bills. The lower the rate the more helpful it would be because in our district the amount of crop moving funds is very clearly - - - - . When credit begins to ease

(Governor Talley - Continued)

at the point of production the banks begin to buy bills. If the rate was too low it would not be attractive. With bills at present levels, banks would buy substantial amounts. If our liquidation did not go along normally I think our directors would be disposed to raise our rate even though the other Federal reserve banks maintained theirs, in order to clean up the liquidation. I think if New York feels that they need a 6% rate they should take the responsibility. From a selfish standpoint, the purchase of Governments would help us most because it would help the price of Governments and enable some of our over-invested banks to liquidate. However, I think the sixth proposition would be the best.

GOVERNOR FANCHER

If we were to simply consider the situation in the Fourth District, the first proposition would be the one to appeal to us. Our own situation is very comfortable. Looking at the situation at large, whatever action is taken by the Federal Reserve System will create a good deal of adverse comment and it would seem that the sixth proposition is the best fitted. If New York and Chicago have a six per cent rate we would be forced sooner or later to raise our rate. We would not immediately do so because of the large reserve we have, but our Board would watch developments. I think we should probably get back to our former policy so that the bill rate bears some proper relation to the discount rate. I would be rather adverse to buying Governments but I would buy bills to see the effect. I would rather see the bill portfolio built up than to see member banks borrowings increase.

GOVERNOR NORRIS

Our local situation is different from what it was in the Spring. Our reserve is now 78% and discounts are about $32,000,000 lower than a year ago, although an expansion in security loans has taken place. Personally, I would

(Governor Norris - Continued)

like to see the discount rate increased because it is out of line, because it would tend to keep member banks from being continuous borrowers and because it would very greatly help member banks in refusing to make further security loans to other customers. I do not think our Board would vote to increase at this time, however, because of the strong position of the bank and because right at this time it would be an inopportune thing to do. I think there would be a disposition to recommend an increase in New York, and if it had the effect it probably would have, I think they would be ready to increase our rate. I question whether an increase at once would be adopted. I would favor an increase in the bill portfolio of the System as I do not think our bill holdings should fluctuate so greatly. I do not favor the purchase of Government bonds except as a last resort to meet an acute crisis because that would directly reduce the investment account of member banks and I am afraid, under existing conditions, instead of applying the proceeds to paying us off, they would be tempted to put them into the call loan market. I think, however, nearly every member of our Board would favor easing of the bill rate.

GOVERNOR BAILEY

We have gotten past the wheat harvest and pretty soon will get our cattle liquidation. From our standpoint, we would like to be let alone. We did not advance our rate when most of the other banks did, and then only out of sympathy with the System movement. We were criticised for advancing to 5% the rate at the beginning of the season. I think we would prefer to reduce the bill rate but leave the discount rate where it is. I do not think we would have any trouble in maintaining our rate if the larger centers should increase. I do not think the increase would affect us at all. Our directors would, however, go along with any System policy.

GOVERNOR HARRISON

At the present time the System portfolio is 85% rediscounts, a higher ratio than at any time since 1921. That is largely responsible for the high rate position and prospects are for still higher rates. If we do nothing, the member banks must meet fall requirements through rediscounts and in Open Market operations. Bill rates are higher than of a year ago in every market except one. In addition, there has not been any advance in rediscount rates. At practically all European banks they have been required to so, not because of inflation or over-expansion, but because they have suffered loss of reserves. Since January, eleven principal banks have lost around $380,000,000 of gold and exchange, mostly foreign exchange. There has been a reduction in their deposits and notes of about $500,000,000 during the same period. The prime cause of their difficulties is the high rates in this country and the necessity for their buying dollars to meet payments on their balances of trade. The problem of the System is how we can get back to a lower interest basis in New York. Reducing the call rate and abandon the open market which will enable Europe to get some funds by borrowing. I cannot see any solution not open to some objection. I think doing nothing is as much a responsibility as either a policy of pressure or ease. If we do nothing we may force a further disorganization of our portfolio in view of the need of additional Federal reserve credit this fall, and that would inevitably result in further pressure on member banks and a still further tightening of interest rates. The question is how are we going to provide what is needed without inviting a further demand for speculative purposes. I think it would be desirable to have a lower bill rate and facilitate the acquistion of more bills such as we did last Fall. How can we get them without inviting a new demand for speculative credit? We could reduce bill rates arbitrarily, we could increase the discount rate or

(Governor Harrison - Continued)

we could do both. The purchase of Governments would be a signal for the market to go ahead. Some feel even if we attempt to operate through a reduction in bills rates, the same conclusions would be drawn. How can we give the country the $300,000,000 it needs without at the same time creating a new demand for credit, which would prevent the new funds from being applied to a reduction in rediscounts. My own thought is to adopt the sixth proposition, doing two seemingly inconsistent things at the same time. If we feel rediscounts are too high and we must put out more funds, an effective rate would encourage member banks to apply the new funds to a reduction in rediscounts. I think New York member banks would like to reduce their debt. Normally, an increase in rediscounts makes for further pressure on member banks. Most banks in New York are now charging 6% to their best customers and 5 3/4% to some preferred borrowers, which would probably be increased to 6%. Some 6% customers might be increased to 6 1/4%, although some bankers do not think so. The increase in the rediscount rate would be merely a barrage under which we could give banks funds and avoid an increase in rediscounts. I think other Federal reserve banks should give that consideration in considering the effect on them of an increase in our rate. What would be the effect no one can say with certainty. No one can say what is the right course. I think this course has the least risk. It is most essential, I think, that the System should be in agreement and doubt if I would recommend any action by our Directors which would not have a fair chance of approval by the System and the Board.

MR. MILLER.

In my opinion, we should study what we have to do to be prepared to move. On indications I would say do nothing until we have stronger indications than at the present time that we need to move.

MR. HAMLIN

I would favor the sixth proposition if the other Federal reserve banks would feel that they would not change their rates immediately and would have a fair chance of maintaining them.

MR. CUNNINGHAM

I am against any increase in rates. I do not see how the increase in rate would be helpful in a policy designed to help business and agriculture.

Mr. Miller suggested that inasmuch as the principal point is the question of an increase in the New York rate, an expression be given by the different districts as to how they feel about it. Not what they would do, but whether they would like to see New York go to 6% with a simultaneous reduction in the bill rate.

Governors Harding, Geery, Talley, Bailey, Fancher, Norris Calkins and Harrison expressed themselves as favoring action by the New York Bank.

Governors Seay, Black and Martin expressed themselves as opposed to it.

Mr. McKay did not express himself.

Governor Harding then made the following statement: "The main question seems to be one local to New York, as well as a National question. I think the New York Bank should raise its rate to 6% and such action should be accompanied by a change in the present policy regarding bills, with a gradual reduction in the rate which I would like to see go down to 4 3/4%. Should the System acquire $250,000,000 or $300,000,000 of bills by January 1st, we would have something with a definite maturity and would not be put to it to sell on the market like we would if we had Governments. It might affect foreign holdings of bills somewhat, but I feel very strongly that the first thing to be done must originate in New York. Six percent is a kind of maximum rate that a bank can charge a good customer and I agree with those who feel that a 6% discount rate will not mean any material advance in commercial rates. I do not believe an increase in New York would mean that Philadelphia

and Boston are going to be loaded up with offerings from New York. I am confident that we can maintain our 5% rate. Not a single director is in favor of increasing the rate. Our member banks are afraid of having to use pressure and increase their rate on deposits. I think we can hold them in line by pointing out that an increase in collateral loans may mean an increase in our rate which may result in their having to increase their rate on deposits. If the New York directors feel that it is necessary to increase the rate as a local proposition, I do not believe it should be turned down.

GOVERNOR NORRIS

I think our Board would be of the opinion that if we went all through last spring with a 5% rate and a 55% reserve, it would be absurd to increase to 6% with a 78% reserve. Our position would have to be very radically altered before our Board would favor any increase. I think we might go to 56%.

GOVERNOR FANCHER

I think that would be the attitude of our Board. We could be considerably poorer without an increase in rate. If our reserve got below 60% we would give it serious consideration.

MR. MC KAY

I cannot say. Our Board might embrace the opportunity to ask for a raise in rate. It would only be a question of time until our reserve would go down and we would have to raise.

GOVERNOR SEAY

I do not believe it would have any immediate effect in our district except to create apprehension that our bank would follow. I voted against it because I have very great hesitancy in saying that the Federal Reserve Bank of New York should raise its rate. I believe it would be better and wiser policy for the New York Bank to maintain its present position with respect to the bill rate, as well as the discount rate. The money put out around July 1st has stayed out because it could not be gotten back. If the New York Bank lowers its bill rate and as a result the System takes in a considerable quantity of bills which results in relaxation in the money market, and member banks pay off a considerable amount of their borrowings, I think it is certain that later on if pressure is exercised against the New York banks to increase their security loans they will do it. It seems to be assumed that the System will get the bills whether we lower our rate or not.

GOVERNOR YOUNG

I personally believe that if New York raises its rate, Chicago, Philadelphia, Boston and other large banks will have to raise too.

GOVERNOR HARRISON

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GOVERNOR BLACK

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GOVERNOR SEAY

I am satisfied that Richmond can maintain a 5% rate unless some National situation arises in the meantime, and it would be our disposition to do so.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date Aug. 6, 1929.

To Governor Young

Subject: 333.-b.1

From Mr. Hamlin

GPO 2—8495

Dear Governor Young:

The only reference my record contains as to the purchase of Government securities, at the Governors Conference of August 7th and 8th, is as follows:

Specific opposition to purchasing Government securities:

Harding
Seay
Norris

Opposition implied from what the Governors said:

McKay
Fancher

Purchase favored by Geery, Black and Talley

Not specifically recorded: - Harrison
Calkins
Martin
Bailey

Sincerely yours,

C S Hamlin

333-B-1

June 20, 1929

Dear Mr. Case:

This will acknowledge receipt of your letter of June 19, enclosing a copy of the turnover statement of your bank for June 15, 1929, which I have looked over carefully and with much interest. I appreciate very much your action in forwarding the statement to me and I am today circulating it with the other members of the Board.

Yours very truly,

R. A. Young,
Governor.

Mr. J. H. Case,
Deputy Governor,
Federal Reserve Bank,
New York City, N. Y.

FOR SPECIAL CIRCULATION

PLEASE READ PROMPTLY, INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young ✓ Mr. Hamlin ✓ Mr. James ✓

Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓ Mr. Pole ✓

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FEDERAL RESERVE BANK

OF NEW YORK

June 19, 1929.

Dear Governor Young:

For your information I am enclosing a copy of the turnover statement of this bank on June 15, 1929, covering fiscal agency and ordinary banking operations, which I think you may be interested in reviewing.

Faithfully yours,

J. H. Case

J. H. CASE,
Deputy Governor.

Honorable R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Encl.

see ans 6/20/29

TURNOVER STAT. EN F THIS BANK ON SATURDAY, J E 1929

SHOWING FISCAL AGENCY AND ORDINARY BANKING OPERATIONS

FISCAL AGENCY OPERATIONS		
Redemption of Certificates of Indebtedness:		
Cash	$163,008,000	
Exchange	11,487,000	
Treasury Notes:-		
Payment by Great Britain	66,795,000	
Payment by Belgium	4,200,000	
Payment by Czechoslovakia	1,500,000	
Payment by Finland	131,000	
Payment by Italy	5,000,000	
Payment by Estonia	125,000	
Payment by Poland	1,500,000	
Liberty Loan Bonds	9,000	
Total Redemption		$ 253,755,000.00
Subscriptions to Certificates of Indebtedness:-		
Book Credit	76,832,000	
Exchange	11,487,000	
Check and Cash	1,355,000	
Total Subscription		89,674,000.00
Government coupons paid	533,021	30,180,000.00
TOTAL FISCAL AGENCY OPERATIONS		$ 373,609,000.00

BANKING OPERATIONS	NUMBER	AMOUNT
One day Special Certificates of Indebtedness to cover overdraft in the Treasurer's Account		$ 137,000,000.00
Loans paid or rebated	55	63,478,000.00
New Loans	39	22,580,000.00
Checks and packages to City Collection Department - New York Clearing House	3,971	994,000.00
Checks and packages to New York Clearing House	139,034	176,696,000.00
Checks and packages through Federal Clearings	30,804	107,319,000.00
Checks and packages to Northern N.J. Clearing House	22,541	17,185,000.00
Checks paid on this bank	2,600	128,724,000.00
Checks paid on Treasurer of United States	10,316	31,815,000.00
Checks handled by Transit	372,566	77,517,000.00
Cash letters sent direct by our member banks	4,719	53,646,000.00
Collections made by City and Country Collection	5,574	6,108,000.00
Cash received by deposit		5,168,000.00
Cash paid out		8,690,000.00
Wire Transfers from other districts	264	42,868,000.00
Wire Transfers to other districts	365	66,789,000.00
Wire Transfers intra district	225	41,623,000.00
Items handled by Coupon Collection	23,684	938,000.00
TOTAL BANKING OPERATIONS	616,757	$ 989,138,000.00
GRAND TOTAL TURNOVER FOR BANK		$1,362,747,000.00

Accounting Department, June 18, 1929.

June 14, 1929.

Dear Mr. Case:

I acknowledge receipt of and have brought to the attention of the Board your letter of June 12th, and I wish to thank you for your full reply to the Board's inquiry as to whether Federal reserve banks in making temporary sales of securities to other reserve banks, through the Open Market Investment Account, should not report them as a contingent liability.

On the basis of the facts set out in your letter, the Board agrees with your view that the obligation, if any, of the selling bank is so indefinite as to make it unnecessary to show a contingent liability in connection with the transactions referred to.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor.

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

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OM Invest. Comm

Board

FEDERAL RESERVE BANK
OF NEW YORK

June 12, 1929.

Dear Governor Young: Filed see weekly letter

I have your letter of June 10 acknowledging receipt of my communication of June 5 see weekly letter on the subject of the status of the Open Market Investment Account.

You inquire as to whether Federal Reserve Banks in making temporary sales of securities to other reserve banks should not report them as a contingent liability. These transactions have ordinarily been handled in two different ways, viz:

(a) By outright purchase, as in the case of the $5,000,000 Treasury 4s recently acquired from the Federal Reserve Bank of Kansas City, and

(b) By the temporary acquisition (on the part of the Committee for System account) of securities from the Federal Reserve Banks, with a view of permitting the selling bank to re-acquire the securities at a later date.

When purchased outright there is, of course, no contingent liability whatever and no intention on the part of the selling bank to repurchase. In the case of temporary purchases it has generally, if not always, been the practice of the Committee to give the selling bank the right to reacquire the securities at a later date provided the securities had not in the meantime been otherwise disposed of. In some cases the selling banks have had in mind a definite date when they would repurchase the securities. In other instances it has been quite indefinite as to just when they would be able to take the securities back, and it has generally not been the practice to have an understanding as to any specific date when repurchase would be made.

N

see ans 6/14/29

FEDERAL RESERVE BANK OF NEW YORK 2

June 12, 1929.

It is our view that the Committee should not acquire securities for System account with an obligation to hold them for any definite time to suit the convenience of another bank; in other words, that the Committee should not be placed in a position of having an obligation to hold securities which it might think it would be in the interests of the System as a whole to dispose of. Contrariwise, there have been very few, if any, instances where the selling bank has had a definite obligation to take back the securities sold. It seems to us, therefore, that the obligation, if any, of the selling bank is so indefinite as to make it unnecessary for that bank to show a contingent liability in respect to these transactions.

As a matter of fact, we doubt somewhat whether, even though the liability were more definite than it is, it would still be necessary or desirable for the selling bank to show a contingent liability in such cases for the reason that it is a matter of inter-bank relationship. There could in no case be any obligation to other than another reserve bank, and for this reason the contingent liability if shown would have to be eliminated in the consolidated statement of the twelve banks.

We have discussed this matter at our Officers Council and the foregoing represents the unanimous viewpoint of the members of the Council.

Very truly yours,

J. H. CASE,
Deputy Governor.

Honorable R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Noted

AT BOARD MEETING.

JUN 14 1929

copy - original in New York Weekly Letter of Open Market Transactions for 1929.

June 10, 1929

Dear Mr. Case:

I acknowledge receipt of and have brought to the attention of the Board your letter of June 5th, regarding the status of the Open Market Investment Account and conditions in the bill and Government securities markets.

The Board noted particularly that the Committee has taken over from the Federal Reserve Bank of St. Louis Liberty Loan and Treasury bonds in the amount of $7,125,000, and from the Federal Reserve Bank of Kansas City Treasury bonds amounting to $5,000,000. The question has been raised as to whether Federal reserve banks in making such temporary sales of securities to other Federal reserve banks should not report them as a contingent liability. We here are not familiar with the exact terms of the transactions and do not know whether there is a definite obligation to repurchase, or merely an understanding that the selling bank may take back the securities if and when it desires.

I would appreciate it if you would furnish me with a copy of whatever agreement may be entered into in cases of this kind and let me know what you think of the idea of reporting securities temporarily sold to the Account as a contingent liability.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

333-b-1

copy - original in N. Y. weekly letter of Open Market transactions for 1929.

FEDERAL RESERVE BANK OF NEW YORK

June 5, 1929.

Dear Governor Young:

IN RE: Open Market Investment Account.

The changes in the Open Market Investment Account since May 28, 1929, the date of my last letter to you on this subject, have been as follows:

We have taken over temporarily, from the portfolio of the Federal Reserve Bank of St. Louis, $7,125,000 of Liberty Loan and Treasury bonds, and from the Federal Reserve Bank of Kansas City $5,000,000 of 4% Treasury bonds. The Federal Reserve Bank of St. Louis wished to be relieved temporarily of its Government security holdings, due to the special demand which it has at this season of the year. Kansas City, owing to its low reserve position, wished to sell its individual holdings of Government securities which amounted to $7,755,700. Of this amount, $2,755,700 was sold in the market, but as the long-term Government security market has been in a rather demoralized condition it has not been feasible to make an immediate sale of these bonds. In order to provide the Kansas City bank with the funds desired, this $5,000,000 has temporarily been taken over into the System Account for sale as and when market conditions will permit.

Our sales contract holdings, which stood at $6,335,000 at the close of business May 28, 1929, were increased somewhat over the first of the month period but will be appreciably reduced today and will show only a slight increase above last week's figures.

The holdings in our own investment account will show an increase of about $2,500,000, representing securities which we have purchased and are holding temporarily for the Treasury, for delivery on Friday, June 7.

These various transactions will result in a slight increase in the System holdings of Government securities for the statement week. However, as explained above, the increase is of a temporary character.

The market for Government securities has shown no material change. Low prices for both the long and the short-term issues still prevail.

The bill market has been more active during the past week. There has been a good demand for bills which, being slightly in excess

of the supply, has resulted in a small decrease in dealers' portfolios. On May 29 the System holdings were $117,919,000, a decrease for the week ending on that day of approximately $20,000,000. The holdings at the close of business June 5, 1929, show an increase of $4,500,000, which consists entirely of bills purchased from dealers under sales contract agreements.

Faithfully yours,

(Signed) J. H. Case,

J. H. Case,
Deputy Governor.

Honorable R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

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FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS

For release in morning papers,
Wednesday, May 22, 1929.

May 21, 1929.

Carded

The Federal Advisory Council at a regular meeting with the Federal Reserve Board on Tuesday, May 21st, delivered the following memorandum of its views on the credit situation, which it authorized the Federal Reserve Board to release:

"The Federal Advisory Council has reviewed carefully the credit situation. It continues to agree with the view of the Federal Reserve Board expressed in its statement of February 5, 1929, that 'an excessive amount of the country's credit has been absorbed in speculative security loans.' The policy pursued by the Federal Reserve Board has had a beneficial effect due largely to the loyal cooperation of the banks of the country. The efforts in this direction should be continued. The Council notes, however, that while the total amount of Federal Reserve credit being used has been reduced, 'the amount of the country's credit absorbed in speculative security loans' has not been substantially lowered.

Therefore, the Council recommends to the Federal Reserve Board that it now grant permission to raise the rediscount rates to six per cent to those Federal reserve banks requesting it, thus bringing the rediscount rates into closer relation with generally prevailing commercial money rates. The Council believes that improvement in financial conditions and a consequent reduction of the rate structure will thereby be brought about more quickly, thus best safeguarding commerce, industry, and agriculture."

18

(COPY)
Original in N. Y. weekly letter of Open Market transactions for 1929.
FEDERAL RESERVE BANK
OF NEW YORK

May 6, 1929.

Dear Governor Platt:

I have your letter of May 4 requesting information regarding our recent operations in bills which resulted in the substantial portfolio increase reflected in the statement of May 1.

The published statement for the System showed an increase during the week ending May 1 of $29,000,000, of which about $26,000,000 occurred in New York. Of the $26,000,000, $16,000,000 was an increase in sales contracts, $9,000,000 of the balance was an increase in bills bought outright maturing within fifteen days, and there was an increase of about $1,000,000 in bills bought running over ninety days. The circumstances which led to these increases were:

(1) the sale to the market on April 29 by one of the largest private banking houses of between $19,000,000 and $20,000,000 of bills maturing within thirty days which the house had carried for some weeks or months. The Discount Corporation, which made the purchase, informed us that the house was selling the bills in preparation for May 1 disbursements. Under the conditions then existing in the money market, it was necessary for the Discount Corporation to come to us for the bulk of the money required to take over that parcel. This we supplied by buying outright about $7,000,000 of the bills, which would mature on or before the 8th of May, and by buying under sales contract an additional $10,000,000 of them.

(2) Further increases in sales contracts were made necessary by the difficult condition of the money market which caused loans to discount houses against bills to be called over the end of the month, and also by a considerable increase in the volume of new bills offered to the market with a coincident slackening of the investment demand.

The third reason for our considerable increase was the discount with us by some of our foreign correspondents of about $7,500,000 of bills during the week, most of which were very short but a million or more of which ran over ninety days. These were practically all for German account and had to be taken into our portfolio rather than sold in the market or distributed among the other reserve banks because they were indorsed directly to us by our correspondent who had bought them abroad and previously had remitted them to us for collection.

Since April 24, when dealers' portfolios were $35,000,000, they had increased by May 1 to $53,000,000, and today will probably run to $65,000,000. During this two weeks period, which followed a lull in the issuing of new bills, resumption of grain exports has brought a large volume of new thirty day bills into the market for which there is little investment demand as compared with the ninety day maturities which are relatively scarce and for which a good demand exists. This has brought about a condition new to this market and the dealers advanced the rates on short bills considerably above the rates at which ninety day bills are bought and sold. In these conditions we can buy and have bought today for our foreign correspondents in replac-

ing maturities thirty day bills at 5½%, as against 5¼%, the best rate at which we could buy nineties. We rather expect that a few days of our buying short bills for foreign banks will relieve the market of the over supply of short maturities and permit dealers to accumulate a moderate amount of ninety day bills; and if the volume of nineties increases substantially we would expect the rates for them to go up to 5½% where they were until April 21 when dealers reduced their rates to attract bills for which there was an insistent investment demand, principally on account of foreign banks' buying through their correspondents in America. It looks to us as if the volume of new drawings might equal if not exceed expiring credits as with the advancing costs of other methods of financing there seems to be a shift from bank loans into acceptance credits, notably against warehoused cotton and in automobile exports, as well as the grain movement which is now substantial from the Argentine.

I trust that the above gives you a clear picture of the discount market of the past two weeks, during which time money has been much in demand at rates which have ranged from 10 to 16% since April 25.

Very truly yours,

(Signed) J. H. Case,

J. H. Case,
Deputy Governor.

Hon. Edmund Platt,
Vice Governor, Federal Reserve Board,
Washington, D. C.

332.6-1

May 4, 1929

Dear Mr. Case:

Receipt is acknowledged of your letter of April 30th, advising of a further sale of $2,500,000 made from the Open Market Investment Account, which reduced the total of that account to $17,500,000, exclusive of the Treasury notes held temporarily for the Federal Reserve Bank of St. Louis, the amount of which has been reduced to $6,000,000 by the repurchase of $3,500,000 by the St. Louis Bank.

When your letter was read to the Board, it noted particularly your advices of the acquisition of a block of acceptances maturing within a week, which because of their early maturity are being held in your own portfolio rather than apportioned among the other reserve banks. This transaction undoubtedly accounts for the substantial increase in the bill holdings of the System shown in the May 2nd statement, and the Board would be interested in learning of the circumstances which surrounded the purchase, including advice as to from whom the bills were acquired. It would be appreciated if you would write me fully regarding the matter.

Very truly yours,

Edmund Platt,
Vice-Governor.

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, N. Y.

see ans 5/6/29

copy - original in N.Y. weekly letter of Open Market transactions 1929.

FEDERAL RESERVE BANK OF NEW YORK

April 30, 1929.

CONFIDENTIAL

Dear Governor Platt:

IN RE: Open Market Investment Account

Since I wrote you on April 23, a further sale of $2,500,000 has been made from the holdings of the System Special Investment Account as a partial offset to recent imports of gold and releases from earmarkings. This sale reduced the holdings of the System Account on April 24 to $17,500,000, exclusive of the Treasury notes being held temporarily for the Federal Reserve Bank of St. Louis. On April 26 the St. Louis bank repurchased $3,500,000 of the $9,500,000 notes taken over from them recently, thereby reducing the amount of notes being held temporarily for them to $6,000,000. We took over from a foreign correspondent yesterday $1,040,000 of the 4½% Treasury certificates maturing June 15, 1929, which certificates are being held temporarily in our own investment account.

With the tightening of money rates due to the month-end requirements and accompanying a falling off in the demand for Government securities, no further sales of securities have been made from the System Account, so that the holdings of Government securities by the System will probably show very little change for the statement week ending May 1, 1929.

The amount of bills held outright by the System at the close of business last Wednesday, April 24, amounted to approximately $116,500,000 or $6,500,000 less than at the end of the preceding week. It is likely, however, that our own bill portfolio will show an increase for the week ending May 1, due to the acquisition of a block of bills which mature within a week and which, because of their early maturity, it would be impracticable to apportion to other reserve banks.

Very truly yours,

(Signed) J. H. Case,

J. H. Case,
Deputy Governor.

Honorable Edmund Platt,
Vice Governor, Federal Reserve Board,
Washington, D. C.

Rec ans 5/4/29

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ATTEB
YESTERDAY SECURITY

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April 27, 1929

Dear Mr. Attebery:

(Signed)

This will acknowledge receipt of your letter of April 25, in which you raised the question as to whether or not a contingent liability should be shown in your published statement covering the bank's liability to repurchase securities that it has sold to the Open Market Investment Committee with the understanding that they would be repurchased at some future time.

It is my understanding that the Open Market Investment Committee purchases securities from the Federal reserve banks from time to time with the understanding that the selling Federal reserve banks may repurchase them at any time providing the Committee has not seen fit to dispose of them in the meantime. This being the case it seems to me that your bank has no obligation to repurchase these securities which could be enforced by the Committee, but merely an option that can be exercised at the pleasure of your bank. If I am correct in this I cannot see any reason why you should show the amount of the securities sold as a contingent liability.

In the case of member banks we require that securities sold under a repurchase agreement be shown in the body of their statements, but our instructions provide that they are to be included only in case they are sold under an agreement on the part of the selling bank to repurchase the securities on or before a specified date. If the member bank merely has an option to purchase, as I understand is the case when the Federal reserve banks sell securities to the Open Market Investment Committee, it should not report any liability thereon in its condition report.

The question as to whether the Federal reserve banks have a contingent liability on securities sold to the Open Market Investment Committee under conditions similar to those in the case to which you refer has been raised informally in the past, and I believe that the answer has always been in the negative. The question has never, however, been formally presented to the Federal Reserve Board for action.

Very truly yours,

(Signed) E. L. Smead
Files

Mr. O. M. Attebery,
Deputy Governor,
Federal Reserve Bank,
St. Louis, Mo.

Mr. O. M. Attebery,
Deputy Governor,

E. L. Smead, Chief,
Division of Bank Operations.

Assistant Secretary
Files

FEDERAL RESERVE BANK
OF
ST. LOUIS

April 25, 1929.

Mr. E. L. Smead, Chief,
Division of Bank Operations,
Federal Reserve Board,
Washington, D. C.

Dear Mr. Smead:

Several weeks ago the Federal Reserve Bank of St. Louis sold to the Open Market Investment Committee nine and a half million dollars of Treasury Notes, with the understanding that it would repurchase them at the same price at which sold when conditions would permit, the Open Market Committee having the right in the meantime to dispose of the securities if in its judgment such procedure was desirable.

Governor Martin and I have been discussing the question of whether or not we should show contingent liability in publishing our statement to cover our liability to repurchase these securities. If a member bank sold any of its assets and obligated itself to repurchase them and failed to show the contingent liability, it is believed that if the matter came to the attention of the proper supervisory authorities it would be reprimanded. If such is the case, it would appear that our failure to show such contingent liability is rather a bad example. Realizing that this is a system matter and not one for us to decide individually, I am writing you personally to find out whether this matter has ever come up before and what your views are in the premises.

With kindest regards, I am

Yours very truly,

O. M. Attebery
Deputy Governor.

Rec'd 4/27/29

Sp 332.2

FED. RES. BOARD FILE

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Sp meeting

April 23, 1929.

-CONFIDENTIAL-

Dear Mr. Wetmore:

The Federal Reserve Board acknowledges receipt of the following resolution which, it is understood, was unanimously adopted by the Federal Advisory Council during its meeting here Friday, April 19th:

"On February 15, 1929, the Federal Advisory Council adopted the following resolution:

'The Council believes that every effort should be made to correct the present situation in the speculative markets before resorting to an advance in rates.'

The Council in reviewing present conditions finds that in spite of the cooperation of member banks the measures so far adopted have not been effective in correcting the present situation of the money market. The Council, therefore, recommends that the Federal Reserve Board permit the Federal reserve banks to raise their rediscount rates immediately and maintain a rate consistent with the cost of commercial credit."

This resolution has been discussed by the Board and I was directed to request the Council to explain just what is meant by "correcting the present situation of the money market" as used in the above resolution, in order that the Board, before acting on the resolution, may be fully advised, and its records disclose, just what objective the Council had in mind in recommending "that the Federal Reserve Board permit the Federal reserve banks to raise their rediscount rates immediately and maintain a rate consistent with the cost of commercial credit."

Very truly yours,

Edmund Platt,
Vice Governor.

Mr. Frank O. Wetmore, President,
Federal Advisory Council,
Care First National Bank,
Chicago, Illinois.

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affirmative Bd Minutes 4/23/29

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On February 15, 1929, the Federal Advisory Council adopted the following resolution:

4-19-29

"The Council believes that every effort should be made to correct the present situation in the speculative markets before resorting to an advance in rates."

The Council in reviewing present conditions finds that in spite of the cooperation of member banks the measures so far adopted have not been effective in correcting the present situation of the money market. The Council, therefore, recommends that the Federal Reserve Board permit the Federal reserve banks to raise their rediscount rates immediately and maintain a rate consistent with the cost of commercial credit.

April 19, 1929

See letter of 4/22/29

On February 15, 1929, the Federal Advisory Council adopted the following resolution:

"The Council believes that every effort should be made to correct the present situation in the speculative markets before resorting to an advance in rates."

The Council in reviewing present conditions finds that in spite of the cooperation of member banks the measures so far adopted have not been effective in correcting the present situation of the money market. The Council, therefore, recommends that the Federal Reserve Board permit the Federal reserve banks to raise their rediscount rates immediately and maintain a rate consistent with the cost of commercial credit.

Special meeting April 19, 1929

3322

SPECIAL MEETING OF COUNCIL April 19, 1929.

On February 15, 1929, the Federal Advisory Council adopted the following resolution:

"The Council believes that every effort should be made to correct the present situation in the speculative markets before resorting to an advance in rates."

The Council in reviewing present conditions finds that in spite of the cooperation of member banks the measures so far adopted have not been effective in correcting the present situation of the money market. The Council, therefore, recommends that the Federal Reserve Board permit the Federal reserve banks to raise their rediscount rates immediately and maintain a rate consistent with the cost of commercial credit.

April - 1929.

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CONFERENCE OF BOARD AND GOVERNORS
April 4, 1929.

4/4/29

Gardoo

The Governors, among other things, reported against a differential on member bank collateral notes, but believed that if any differential should be contemplated it should be postponed until commercial rates could be reduced.

The Governors reported on Mr. James' proposition that banks having bank deposits not over 10% of their total demand deposits should be made non-reserve cities, that in their opinion the 10% should be applied to individual banks in the cities and not to the entire city.

Discussion of credit and rate situation.

Governor Calkins reported as a formula that the Governors unanimously subscribe to the opinion that no Federal Reserve bank should today have less than a 5% rate, and that rates should be advanced to 6% in the Federal Reserve banks in principal financial centers.

Governor McDougal said that the Governors were not speaking for their directors.

Governor Harding:

New England is a saving and loan section, and an investment section. He stated that the New England banks have lost heavily in deposits, as also the savings banks; that the reserve deposits of the member banks had dropped 140 millions, while all banks had dropped 250 millions; that the member banks loan largely on collateral loans which, in fact, were not liquid; that on January 26th the Boston bank had the lowest reserve ratio of the System; that just before the Board's warning he had sent out a confidential letter to 50 banks in his District; that later, after the Board had published the recommendation of the Federal Advisory Council, he sent out a general letter; that the response to his first letter was very encouraging, advances to member banks dropping from 83 to 53 millions; that the bill rate advances had killed the bill market in New England; that the recent improvement in his reserves was brought about by the cutting down of bills; that although the reaction at first was good in his District, on some days the discounts are as high as ever, and he is satisfied that direct action, although it has done much, will not be a solution of the problem unless assisted by higher discount rates.

He said that some banks were buying acceptances and rediscounting them at the discount rate of 5%, mentioning the Old Colony Trust Company, which had so discounted 5 millions, not for any stock speculation purpose. He also cited the instance of the Falmouth Bank which bought acceptances at 5-3/8% and discounted them with his bank at 5%.

As to the effect of an increased discount rate on small borrowers, he said that in the country districts the borrowers always pay about the same rate - 6%. In the cities where borrowers can go to other districts, they get a low rate not related so much to the Federal Reserve rate as to the security or call loan rate.

He said that an advance to 6% would possibly increase the small customers' rates from 5¾ to 6%, but not higher. He said that his suggestion made to the Board some time ago of a differential rate against collateral notes, was strongly objected to by his Class A Directors. He said that 70% of his loans are collateral notes secured by Government bonds.

On the basis of the present 5% rate, he would like a rate of 4½% on bills. He said it would not be possible to obtain any greater cooperation with the member banks than he is getting at the present time; that they still are making collateral loans; that a 6% rate would help them resist their customers and bring about a reduction in these loans. He agreed that the real menace is speculative credit, and that 6% may not clean up the situation but may be the forerunner of successive advances.

He again expressed the opinion that direct action, although it has done much, can not cure the problem except with the help of a 6% discount rate.

Hamlin

C.S.H. asked him about the statement in Mr. Curtiss' recent report that there is some commodity speculation in shoes and cotton. He did not seem to attach any importance to this, and said that his recommendation is not based on any existing commodity speculation.

To Dr. Miller he stated that the question was the control of collateral loans; that the member banks, although they have somewhat controlled them by direct action, can not refuse them, but that a higher discount rate would make it easier for them to control them. He thought that the increased rate would not affect general business in his District.

Governor Harrison:

States that in 1927 the System, rightly or wrongly, started an easy money policy; that gold imports were imminent, and that we were forced either to lower our discount rates, or to see Europe increase hers; that a European increase would seriously affect our export trade; that business at the time here was under depression, and it was felt that lower rates would help both the domestic and international situation; that lowering the rate did greatly help our exports, and it must be admitted also encouraged speculation.

States that at the end of 1927 a large gold export movement started in; that the Federal Reserve rates were increased three times, the policy at that time being to restrict an undue expansion of Federal Reserve credit; that speaking generally this policy has not succeeded; that there has been a great expansion of member bank credit and brokers loans; that the situation is all wrong, and pressure must be applied.

He pointed out that the bill rates had reduced acceptances, and he believes this is necessary in the present situation; that there has been a net increase of gold imports of 37 millions in the past year; that since the Board issued its warning they have vigorously worked along the lines of direct action, but we have done all we reasonably could be expected to do; that loans on collateral are only slightly less now than in February; that brokers loans have increased; that the Board has accomplished much by its warning, but the question is, "Are we getting now what we want through direct action?"

Dr. Miller asks him to state what it is we want.

He did not answer this question directly, but left it clearly to be implied that what the situation demanded was a cutting down of speculative loans onthe New York Stock Exchange. He said that member bank credit was still expanding; that as the result of our firming policy, there had been a continuous firming of interest rates; that the situation probably would ultimately settle itself without anindecrease, but what he hopedfor was an increase in discount rates as a more speedy settlement of conditions so as we could give lower rates to agriculture and business.

He then asked what it was the Federal Reserve Board wanted, and Mr. James replied he wanted a cessation of abuse of Federal Reserve credit. He again said that the ultimate problem was how to give business lower rates; that ultimately we may have to buy securities to ease up the conditions, but he could not say when the time was to begin this policy.

Dr. Miller says that he can say what the Board wants.

Governor Harrison said that, in his opinion, direct pressure should be continued, but assisted by increased rates. He said frankly he did not know whether the 6% rate would accomplish this; that we may have to go to 7% or higher; that he felt the job could be accomplished more quickly if we at once increased our rates; that under increased rates direct pressure would operate more uniformly; that if the Board or the banks were to try to go to the extreme of rationing credit, it would at once make panicky conditions arise, and would be very dangerous; that Chicago calling its loans brought pressure on New York, and for a time caused almost a panic in New York, because of the rumor not of direct action, but that credit might be absolutely denied to member banks; that an arbitrary refusal of credit would be dangerous.

He said that his Bank declined to advise any member bank as to the calling of loans or the fixing of call loan rates, but it had given assurances that if a panicky condition were suddenly to arise, the Federal Reserve bank would support the market; that he had duly reported this to Governor Young.

He said that a rate increase was necessary to supplement direct action. He quoted cables from McGarrah and Owen D. Young earnestly asking for a rate increase. He said that Owen Young pointed out that it was the call loan rate and not the discount rate that was injuring Europe and making it difficult for them to keep their funds at home. He admitted to Governor Young that probably there were some banks abusing credit facilities by frequent borrowings, but he said that he took this up with them as fast as the occasion arose; that really there was little abuse of Federal Reserve credit today in New York; that there was no commodity speculation; that the whole problem was an investment or a speculative condition; that direct action has accomplished all that can be reasonably expected without an increase in discount rates; that of course direct action could be carried further, - for example:

We could conceivably order every member bank to reduce its loans, say by 10% as did Schacht, but that the country would not stand for this, and it would probably cause panicky conditions. He said that the bill rate should not be below the discount rate if we increased to 6%; he admitted that there was now a serious slowing up of building operations; that mortgage loans were now difficult to obtain, and he admitted that business was being more or less affected by these conditions.

Dr. Miller asked him what situation it was that he wanted to correct by higher discount rates. He replied the control of the expansion of credit through stock speculation; that the existing rates or lower rates encourage speculation; that we should, however, continue direct pressure even with a higher discount rate.

Dr. Miller asked how he could control the speculative situation by increased rates. He replies that they would check expansion on the stock market by breaking the market. He said to Dr. Miller that he felt the existing rate situation would ruin us. Dr. Miller said the object that the Board has in view is the controlling of Federal Reserve credit so that only a reasonable amount shall be used in speculative loans; that with an 80% reserve, a 6, 7 or 8% rate is an emergency rate, and he asked Governor Harrison what the emergency was.

Dr. Miller says it is conceivable that it may be no longer possible or desirable to obtain direct action, but if this is Governor Harrison's opinion he should frankly say so. Dr. Miller added that direct pressure, in his opinion, has very nearly accomplished its purpose already.

Governor Norris:

Will endeavor to answer Dr. Miller's question as to what the situation is which we desire to correct. He said that the speculative craze is increasing the use of credit to unheard of amounts, drawing money from the interior to New York, and draining business; that this situation has decreased the price of bonds, and has seriously affected building operations; that it has turned the attention of business men from their business to speculation; that it has diverted funds to New York; that it has pressed down savings bank deposits; he said he had traced out one check paid in January which showed $150,000 paid to brokers; that the country has become demoralized; that of the total credit outstanding, Federal Reserve credit is only about 3%; that direct action has not reduced the volume of credit nor of brokers' loans, but that it has slowed up the rate of increase; that but for the warning of the Federal Reserve Board the growth of speculative credit would probably have been far greater than it has been; that although direct action has produced good results, it has carried with it some bad results:

1. It has caused friction with the member banks, although they have reluctantly complied with the Board's warning.

2. It has penalized the banks which have cooperated, to the benefit of banks which have not, and especially to the benefit of non-member banks.

3. It has raised business rates without correcting the situation.

As to the local situation, Governor Norris pointed out that his reserve ratio was 10% below the System average; that discounts were 40 millions greater than at this time last year; that the policy of low discount rates, on the one hand entice a bank to borrow, and then by direct action we refuse them this privilege; that to go further along extreme lines of direct action would be to disrupt the Federal Reserve System, so far as the Philadelphia District is concerned.

It is hard to refuse a customer, willing to pay 6%, when he points out that the bank can borrow at 5% on eligible paper. As to the effect on customers rates of an increased discount rate, it will have very little effect, as outside of Philadelphia and Scranton all customers now pay 6%, and always have; that probably no customer would have to pay more than a quarter of 1% increase, bringing it up to 6%.

Governor Norris said we have never developed an acceptance market

in Philadelphia. We have only a small amount of acceptances, and have no interest in the bill rate.

To Governor Young he replied that direct action had not stopped speculation to any material extent; that we have done all we reasonably could along the lines of direct action, and that we need the assistance of a higher discount rate; that in Pennsylvania any rate over 6% is usury, excepting Federal Reserve rates, and that customers' rates, therefore, could not go above 6% under the state law, whatever the Federal Reserve rate; that there is very little frequent or continuous borrowing in our District today; that only one Philadelphia bank has been a continuous borrower; that our Directors believe that if 6% is not a sufficient advance to correct the speculative situation, - which is the real problem, - we should increase to 7% or perhaps 8%; that he would favor an increase to 6% even if it had no effect on speculative loans, in order to bring the Federal Reserve rate into line with other rates; that he believed, however, a 6% rate would have at least a tendency to help correct the situation.

Governor Young pointed out that a speculative movement has never been corrected by increased discount rates, but has usually ended up through some catastrophe, and that the Board wishes to try out direct action before increasing rates.

Governor Norris stated that he believed the stock market is toppling, and that one or two rate increases would settle the question. He admitted to C.S.H. that if rates, for example, were to go up to 8% and continue for any length of time, it would be a very sad day for business.

Governor Rauscher:

Up to March 8th there was no occasion for higher rates, nor is there today, unless we look at conditions in other districts. We had a gradual liquidation to March 12th, going down 86 millions from December 23, 1928. Since then there has been a great increase in member bank loans.

Refers to the usury 6% law of Pennsylvania; says that our directors meet tomorrow, Friday, April 5th, but that he will recommend against any increase, but to wait until an increase is made in Boston, Philadelphia, or New York; that in such event we may have to follow; that there has been very slight abuse of Federal Reserve credit facilities in his district; that we have proceeded along the lines of direct action, and could have been even firmer without resorting to drastic action; that rates so far have not been a deterrent to business except to building operations; that an increase in the Federal Reserve rate would increase the customers rate to 6%; that leaving out consideration of other districts, there is no impelling reason today for putting up our discount rates.

Governor Seay:

For 18 months have been greatly concerned at the expansion of credit. The statistics as to brokers loans have obscured the situation. The problem is a broader one than that. The whole problem is collateral loans. What is it we want to accomplish? We want to correct credit inflation, speculative loans. No one thinks that the 5% Federal Reserve rate is responsible for the high rates on speculative loans, - the fact is, there has been a very great expansion against the declining gold reserves of the country. When we sold bonds to tighten up the market, the banks bought the bonds and at once borrowed from us on their notes collateraled by these bonds. The great expansion has been accomplished through the use of Federal Reserve credit. Once Federal Reserve credit is issued, it is a permanent addition.

While it is true that Federal Reserve credit is only a small percentage of the total loans, the banks are borrowing a billion dollars to support these credits; that some action is imperative to reduce Federal Reserve credit; that the real security loans are probably 31 billions, including bonds, and not the relatively small amounts brokers are borrowing.

The present situation is not an investment situation, - it is a speculative situation. There has been an enormous increase in the issue of securities, and buyers have to borrow to pay for them, and very many of them buy purely for the profit on resale.

Governor Seay pointed out that in 1919 we tried both direct action and increased rates, and finally agreed on the necessity of increased rates. He said he believed there was more danger in direct action than in increased discount rates; that if the banks were required directly to reduce their loans, it might cause a convulsion; that to increase to 6% would have an effect on the situation, unless the public believed that we were ready to go further if necessary; that an increase in the discount rate is the most effective way to discourage speculative borrowing; that the present high commercial rates were causing building operations to be postponed; that ultimately we are bound to lower rates to help business and agriculture; that our discounts are larger now than for four years; that our district is being drained of money to send to New York; that business is being injured and demoralized in our district; that there are very few frequent and continuous borrowers in our district.

He pointed out the large amount of credit in real estate loans which now, however, are not increasing. Governor Young states that he did not desire to contract present credit, but that if future expansion could be stopped our troubles would be over. Governor Young points out

taking gold movements into consideration, Federal Reserve credit has been about the same for the past five years, 1924 to 1929. Governor Seay says he does not agree with this, and does not think that gold movements should be taken into consideration. Governor Seay believes that the amount of existing credit should be cut down and not merely restrained, as to the future.

Governor Young points out the tremendous cutting down which would have to be brought about from the reason that loans have increased against reserves on the ratio of about 15 to 1, and that converse action might be very serious.

Governor Seay says we have only a few frequent and continuous borrowers in our district, and that probably few are making speculative loans; that we could control our banks through direct action probably easier than could Boston, which is an investment center; that he sees no impelling reason for a 6% rate, if no other bank should increase. Admits that long continued high rates up to 6, 7 or 8% would badly injure business, but not more than the existing injury to business under present conditions.

Governor Young points out that higher rates, if permanently in force, would force England to put up her rates, which would cut down her purchasing power for our exports and seriously affect them, and he asks if Governor Seay, understanding this, is willing to go the limit on increasing discount rates. Governor Seay replied that 7% would be his limit.

Governor Black:

Stated that the situation was well in hand in his district; that there were few if any banks borrowing frequently or continuously; that he saw no reason for an increase in the discount rate unless it was forced on him by the action of other banks.

Governor McDougal:

The present discount rate is out of line with other rates, and should be brought into line and slightly above it; that the expected liquidation in January did not occur, but that the member bank indebtedness increased 91 million dollars; that on March 15th his directors practically all favored an increase in discount rates; that on March 22nd he so recommended to his directors; he said that the present problem was the tremendous expansion of credit, which constituted an emergency.

He denies that Chicago banks have abused Federal Reserve credit, but admits that it has been misused by being diverted from business to speculative channels. We have done about all we reasonably could by direct action, and we are getting its benefit now.

G.S.H. pointed out to Governor McDougal that on March 15th, when his directors wanted an increased rate, the total bills and securities were 301.1 millions, while on April 3rd they had declined to 243.8 millions, a decline of 57.3 millions, whereas the reserve ratio had increased from 61.5% on March 15th to 67.3% on April 3rd. G.S.H. asked Governor McDougal if this decline, about 18%, did not show a fine progress in direct action. Governor McDougal gave a somewhat equivocal answer.

Governor Young asks McDougal if he would favor going higher than 6% if necessary. He answered rather equivocally, but finally said that, in his opinion, we might have to go higher; that in his opinion business will be less penalized by increasing rates now rather than by waiting; that increased rates will probably increase customers rates to 6%. Said that for himself he would favor going higher than a 6% rate if necessary, and thinks probably it may be necessary.

Governor Young points out that the expansion since June 28th of last year is only a little over 2% in Federal Reserve credit, and shows progress made under direct action.

Governor McDougal said the best solution of the problem will be to have the state of New York make call loans subject to the usury laws. He said that the New York Federal Reserve bank bill rates have always followed market rates, and that we should not have a buying rate for bills which will fill the Federal Reserve banks with acceptances.

Governor Young expresses the opinion that the acceptance rates are not too high; that the trouble is we really have no open window for acceptances, and cites Governor Harding's failure in distribution to his bills.

Governor Martin:

Feels that direct action had a good effect in his district; that it caused the liquidation in brokers loans, but that his trouble chiefly came from large withdrawals of deposits; that they have done everything along the lines of giving up participation in Government securities, and in other ways; that deposits now apparently are slowly coming back; that we are so tied up with Chicago and New York, that we can not keep our rates permanently lower than theirs.

Is inclined to believe that we are forced to increase rates. An increase to 6% would not injure business as a whole in his district; that outside of St. Louis it would greatly decrease the profits of member banks but would not affect customers rates, as they now pay high rates, always as high as 6%, and in some states higher; that he would dislike to go up to 6% unless Chicago and New York does; that he is not prepared at the present time to go to 6%, apart from the action of the other banks, but of course he may have to do it. We are willing to go to 6% to help Chicago and New York only, but if there is no improvement in our reserve position I shall recommend an increase in discount rates.

Thinks that the withdrawal of deposits is closely connected with speculation; that there is little frequent or continuous borrowing in his district; that an increase in rate in the past has always improved his reserve position; that if speculation should ease down, we would not want to change our discount rate; that nationally speaking we would be willing to go to 6%, and further, even to 7, 8 or 9% until the desired result is obtained.

Governor Geery:

Says he came to the Conference opposed to an increase in rates, but, in his opinion, Boston, New York, and Chicago have shown the necessity for an increase; that such an increase would put our rates out of line; that there is no reason for an increase in his district unless the above banks increase their rates. Thinks very likely that he could maintain a 4½% rate even if Chicago went to 5%. He certainly could maintain a 5% rate as against a 6% rate at Chicago.

Governor Young points out to him that apparently direct action is making progress; that many think that Chicago and New York are even going ahead too fast.

Governor Worthington:

Three weeks ago some of our directors wavered as to the question of increasing discount rates. Last Thursday there was a strong feeling that we should increase to 5% because we were out of line with customers rates and not because of speculative loans. We voted not to increase, but if New York and Chicago increase, we will vote to increase to 5%. Some of our directors wish to go up to 5% in any event.

There is little or no abuse of Federal Reserve credit in this district, and no need for very much direct action. We really began direct action about a year ago.

There followed a discussion between Governor Young and Governor Calkins as to whether the Governor's memorandum meant that a rate increase is necessary or merely desirable. Governor Calkins said it meant that it was desirable but not absolutely necessary.

Governor Norris states that the memorandum does not mean that a solution can not be obtained by direct action, but that it is merely desirable to increase rates in addition to direct action.

Governor Talley:

We are all very happy over our increase to 5%. The banks are cooperating with us. The Board's warning has had a good effect. I believe we should be cautious as to rate increases. The whole question is one of control of speculative credit. We can probably go farther along the line of direct action. Do not think it imperative at the present time to increase rates in the country. I have a little doubt in my mind as to the advisability of immediate increase. It may be that we could not maintain a 5% rate if the other large banks went up to 6%. Have doubts in my mind as to the advisability of going up to 6, 7 or 8% to correct the speculative situation.

Governor Calkins:

Believes that neither direct action nor discount rates alone can solve the present situation. Believes that it will probably be necessary to increase discount rates, speaking generally. Thinks the Governors views expressed in their formula were justified in spite of the doubts of Governor Talley and others. Says they arrived at the formula as the result of long discussion. I have advised no change in the discount rate at San Francisco, but feel that it may become necessary.

Reads a printed memorandum.

Says that our rates are now out of line and should be increased; that direct action has done much and can do more; that we have done so far as much as could reasonably be expected; that our bill window is tightly closed by the high acceptance rates, and in his opinion they should be kept closed, although he has sympathy for Governor Harrison's position.

Believes Federal Reserve rates should be increased at San Francisco now, wholly apart from what is done in other districts to bring the Federal Reserve rate into line with other rates.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 8, 1929.

To Mr. McClelland

Subject:

From Miss Laning

2—8495

Mr. Hamlin has asked me to hand you herewith a copy of his record of the proceedings of the joint Conference held April 4th between the Governors and the Federal Reserve Board, for comparison with your notes.

M. Laning

INTRODUCTORY STATEMENT BY GOVERNOR CALKINS
CHAIRMAN OF GOVERNORS'
CONFERENCE.

333-6-1
4/4/29

In introducing the discussion of the question of rates, Governor Calkins advised that merely as a basis for their discussion with the Board, the Governors had informally agreed upon the following statement as a formula:

> "That no Federal Reserve Bank should have a rate below 5%, and that the rates of the Federal Reserve Banks in the principal financial centers should be raised to at least 6%."

He stated that the conclusion was concurred in by every Governor present.

Governor McDougal stated that the Governors were not speaking, of course, for their directors.

In reply to an inquiry by Governor Young as to whether any reasons were given in support of the conclusion, Governor Calkins suggested that the discussion go around the table for individual expressions.

Notes on the individual statements, made by the Governors, are attached. It should be understood, however, that they are not verbatim reports.

GOVERNOR HARDING

There are large security holdings in the First Federal Reserve District by banks, corporations and firms. The proportion in banks is greater than in any other section. We also have very diversified interests in the district.

There has been a loss of deposits during the last twelve months which has been traced to investments. Many investment trusts have been formed. Member bank deposits have dropped $140,000,000, while the total loss of deposits by all banks is around $250,000,000. Reporting member banks on March 30, at $357,000,000 of collateral loans. These are not really liquid loans, but are renewable at the option of the customer. On February 6 these reporting member banks had $467,000,000 of collateral loans. The reserve position of the Federal Reserve Bank of Boston on January 26 was the lowest in the System.

We sent out a letter, confidentially, to 60 banks at about the same time that the Board sent its letter to the Federal Reserve Banks, but ours was not inspired by that. Later on we sent out the recommendation of the Federal Advisory Council in a general letter and both were well received. The immediate effect of the first letter was a reduction in advances to member banks from $83,000,000 to $53,000,000. Last night, our bankers' acceptances were $21,000,000, and at the time our gold reserves were at $77,000,000.

Boston is an important import acceptance center. We do not have much export business. We have been proud of the standing of our acceptance market and the Federal Reserve Bank is a large buyer.

Beginning February 1 we have discriminated against outside bills, and as far as possible, against longer maturities. The advance in bill rates have killed the market in Boston; no bills are being created.

The improvement in our reserve position has been brought about by a reduction in our bill holdings. There have been several days since the first of February when our discounts were almost as high as they were on January 26. Member banks in the district cannot help themselves as long as we have a rate of 5%, which is below the bill rate and the current rate for commercial loans. It is difficult for them to hold off their customers. One bank which had gone out (The Old Colony Trust Company), came in with $5,000,000 for the purpose of buying bills. The country banks are also interested at present rates. One bank at Falmouth took some bills on at 5 5/8%, endorsed them and sent them to us at 5%. Our rate does not govern as far as the little merchant is concerned. He pays the same rate regardless of the Federal Reserve discount rate. He has only one source of credit. Member banks in Aroostook County now owe $250,000, on which they are charging 7%, which is what they always charge. In the cities, of course, the borrower gets the lowest market rate, which is now related to the call money and general market rates and not to the Federal Reserve rate. No one is borrowing in Boston at less than 5 1/2% - some are paying 5 3/4% and some 6%. One large bank in Boston said that a 1% increase in the discount rate might result in an increase of 1/4% in customers' rates. Our directors, at their last meeting, after six weeks' consideration, unanimously voted to establish a 6% rate. Some time ago I suggested a differential. Objection was raised by our Class A directors because their banks are loaded with securities and it would be unfair to them, but the main objection was that 70% of our loans are on collateral notes government secured. A differential would put all banks to the trouble of substituting eligible paper and we would be throwing out good collateral and taking miscellaneous

stuff. The idea of our directors in voting a 6% rate was to make the rate somewhat effective at above the fill rate.

Recognizing that we have a local condition and that the Board has a larger problem, our directors provided that if action was not taken by the Board by yesterday, their action should be considered as rescinded. Another resolution was adopted, however, authorizing our Executive Committee to renew the recommendation pending our next directors' meeting. The Committee has renewed the recommendation for a 6% rate until next Tuesday, when the directors meet.

We have had the very best sort of cooperation from our member banks. We owe them something. They do not want to make collateral loans. They have used our letters. If we had a 6% rate we would be helping banks which have been trying to help us. You may say, if the rate of advances is increased it would remove the uncertainty. Speculators can be as much afraid of a 7% rate as they are of a 6% rate.

It is not our province to discuss national conditions and I hope I may be excused for pointing out in conclusion that it is just as much an accommodation sometimes to business to increase the rate as it is to lower it. As far as Boston is concerned, we feel that the greatest accommodation we can give to commerce and business is to raise our rate. It is absolutely imperative, of course, that if the New York rate is raised, we should have our rate raised at the same time. We can maintain a higher but not a lower rate than they do.

(Governor Harding then referred to the situation in 1919, pointing out his opinion that an earlier increase in rates then would have been beneficial to commerce and business.)

The Boston directors, regardless of action by other Federal reserve banks, would like to have their 6% rate approved, based on requirements in their own district. They want to lower the bill rate and cannot begin without a 6% rate on discounts. They are firmly convinced that rate action is necessary

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In reply to an inquiry as to whether it might be necessary to go beyond a 6% rate, Governor Harding expressed the belief that a 6% rate will be helpful, and that there is a point in a program of increases where the situation will be cured. He pointed out further that the more the call money rate goes up, the greater the pressure on local banks.

Governor Young then stated, on the general set-up there is no occasion to raise rates. There is one factor you have been unable to control, which is speculative credit. As the Board sees it, the discount rate will have no effect. I think the present policy has had a detrimental effect on business and has had no effect on speculative credit. If the demand for speculative credit should cease, I don't think anybody here would be for a 6% rate. The Board feels that if it can get through the situation without raising the rate, it has done a great public service.

In reply to an inquiry by Governor Young, Governor Harding stated if a 6% rate does not have effect, they are prepared to go higher and accommodate business through a lower bill rate. Governor Young then inquired - "Do you feel you have exhausted every reasonable effort to control by direct action, and the situation can only be handled and controlled by rate action, regardless of what the rate might be?" Governor Harding replied in the affirmative, stating that everybody has cooperated as far as they can and that he does not

see what else can be done unless the Federal reserve bank refuses to do any business. In reply to a further inquiry, Governor Harding stated that the 4 1/2% rate maintained at some of the banks has not disturbed the situation in his district, but that he does not know whether it has affected the national situation adversely.

GOVERNOR HARRISON

We have already expressed our views, both to the Board and to the conference. There has never been a time when the problems were more complex and the solution was more difficult to determine upon. Some uniform system policy is therefore desirable. Our directors have felt from the beginning that they wanted to cooperate with the Board. In 1927 the System started on an easy money policy. It did so anticipating that it was impossible to control the expansion of credit and that there might be some diversion of Federal reserve funds into speculative uses. By the end of the year, $500,000,000 of gold had been exported and balances had been accumulated in this country. We have lost gold, the System has sold securities and has raised rates in a policy to restrict unduly rapid expansion of credit. In that, we have failed, but not because of the lack of effort. Credit expanded rapidly in the spring of 1928; we had a let-up, but now since August have had a continuance of the rapid expansion of credit, despite efforts since January 1st to control. Bill rates have gone up, holdings of acceptances have been reduced from $485,000,000 to $205,000,000, Government securities have been reduced by $70,000,000, gold has been earmarked. Since the Board's statement, the System has wholeheartedly cooperated through direct action. We feel in New York that we have done everything we reasonably can. Total loans by New York City banks on collateral are just about what they were in February, perhaps less, although loans to brokers vary rapidly. The question is: "Are we getting what we want"?

(Secretary's note: Governor Harrison was interrupted here by an inquiry from Dr. Miller as to just what it is that the System wants. Considerable discussion ensued, but no definite statement was made on the point.)

We feel that it is a System problem. We do not want to let up in our efforts. The result of the policy of the System has been a continued firming of interest rates all over the country for the past year. The question is one of time. Are we satisfied to let matters continue as they are, accomplishing something, but admitting that credit is continuing to expand and rates to go up? If we do nothing more than we have, somehow, someway, the situation will correct itself. However, the element of time is more and more important. We feel, therefore, that if we are not satisfied and believe the element of time is important we should use every instrument we have to correct conditions. What we all favor is to give business and commerce a lower rate than we have had. We could do it by buying securities and reducing rates. The question is whether it would be reasonable to do that now and, if not, when. I feel that we have not yet reached the time. Then, the policy should be continuance of pressure by the exertion of every other method to hurry the time when we would be satisfied to go into reverse. We have recommended a rate, not as a substitute for the Board's policy, but as a supplement to the Board's action, believing the element of time is getting more and more important, and considering the bond market, the mortgage market and rates for business which have gone up without an increase in Federal reserve rates and will probably continue to increase. The question is do you want to make rates higher with the hope that such action will end high rates, or do you want to let present rates continue longer. A 6 per cent rate would expedite the time when we would reach our object. We might have to

go to 7 per cent and we would let it be known that we are willing to do so." We believe we can handle our situation better if we have a discount rate more nearly in line with market rates. The greater the differential becomes the more difficult it will be to control because the more you tax the self restraint of member banks. The rate makes for a more uniform action by member banks. After Chicago banks called $40,000,000 of loans those borrowers had to come to New York. The pressure immediately shifted and we almost reached a panic. There was a rumor out that there was no more direct action but a denial of credit. The worst thing we could do in a situation like that would be to refuse to make a discount. The Federal reserve bank announced that it would not indicate that it wanted any member bank to put money into the market and that the call rate was not the affair of the Federal reserve bank. If trouble should develop, however, the position of the New York Bank would be that it would discount freely at the rate. It is important that we not abandon our present direct action, but supplement it. We feel that the community not only expects, but has a right to ask that its efforts to cooperate should be supported by a discount rate more nearly in line with customers' rates. Our control must be through a rate comparable to outside rates. The System will have to control from now on through rate control as a supplement to direct action rather than by direct action solely. Our directors are unanimously in favor of a rate increase. Messrs. McGarrah and Young, who are abroad, both urge an increase. New York feels that the call money situation is now an international controlling factor. Our discount rate does not affect the foreigners as does the call rate, which, if continued too long, will be harmful all over the world.

We are looking at the question from a national viewpoint rather than local.

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In reply to an inquiry by the Governor, he stated that in the opinion of his directors, they have done all that reasonably can be done by direct action and must be supplemented by a rate advance to whatever point is necessary to correct the situation, regardless of the effect on business temporarily.

In replying to an inquiry regarding the formula adopted by the conference, he stated that he asked the other governors what they thought the New York rate should be, and in reply to similar inquiries from them expressed the opinion that rates in the principal money centers should be 6 per cent, and if that is done he did not see how 4½ per cent rates could be maintained without unduly burdening the banks which have them. He stated that if there could be a uniform agreement, it would be advantageous to have everybody act promptly and consistently. He also stated that there is some feeling that if you are going to correct the situation through rates, it must be done through all windows and that he would recommend that no bill rate be below the discount rate, if his bank goes to 6 per cent.

In reply to another inquiry, he stated that in his opinion it would be no different were the speculation in anything else instead of securities, if the value of credit was increasing and the level of rates increasing, and that he would like to correct the situation which, if continued, will ruin business.

Dr. Miller pointed out that he would give real consideration to a reduction in rates, if it is demonstrated that the Federal reserve banks have their member banks lined up against the abuse of Federal reserve credit.

Governor Harrison stated that what is being done has increased rates generally,

but the System is maintaining the low rate for member banks which are getting the difference instead of business.

GOVERNOR NORRIS

The general situation has depressed the price of bonds, is holding up construction and increasing the cost of legitimate corporation banking. It has distracted the attention of business men from their own business and has diverted funds from other districts to New York. Individual customers of banks in Philadelphia have directed them to make transfers to New York. Country banks have been saying to Philadelphia banks that they do not care to continue their loans at 6% on slow Philadelphia collateral when they can get 12% to 15% on readily marketable collateral in New York. This has tremendously reduced deposits including those in savings banks. Only 3% of the total credit is Federal Reserve credit. You could, therefore, say you are not concerned in the situation; however, if you feel you are necessarily in the position of putting a stamp of either approval or disapproval on the situation, I should think you would feel that this situation is one which could be disapproved. We have made an effort to ascertain what can be accomplished by direct action. It has not reduced the volume of credit which has slowed up the rate of increase, otherwise the increase in credit generally and speculative credit would have been greater than it is. A greater degree of friction has been created, than ever before, between us and our member banks. They have a resentment against interference with their own management of their institutions. It has had the effect of penalizing those banks which cooperate with us and diverting to others which do not cooperate, or to nonmember banks. It has raised rates to business without correcting the situation. Locally, since August 20th, we have always been one of the richer banks. Our position has always been easy with a 70% reserve or so. Our reserve now is 10% below that of the System. Our discounts, in spite of efforts, are about $40,000,000 higher than at this time last year. We feel that we are

in a foolish position when by a low rate we practically invite member banks to come in and borrow and then when they do, tell them to stay out. It seems that the only way to hold rediscounts down is to establish a rate which will make it unattractive. We have gone as far in the line of direct action as it is possible to go. We could, of course, go further at the cost of total disruption of the Federal Reserve System, as far as our district is concerned. We feel it is our right, as well as our duty, to protect our resources by raising the discount rate. Many of our banks would recommend an increase. The task of the member banks is made more difficult because they can borrow at 5%. They feel they can cooperate better and easier if our rate is increased to 6%. The action of our directors last week was approved by all three of our business directors. Business in our district could not be hurt by an increase in rate because only a very few favored borrowers are getting accommodation below 6%. Outside of Philadelphia and Scranton, 6% is universal at all times. The only possible harm would be that the very few for the short period would pay one-quarter of one percent more than they are paying now. We would not be affected by the rates in the 4 1/2% districts. If their reserve ratio is higher than ours, we might get some criticism. The bill market does not affect us. The acceptance business has never taken hold in our district. There are only $12,000,000 or $14,000,000 of bills originating in our district. Most of our bills are bought from dealers merely to support the bill market.

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In reply to an inquiry by the Governor, Governor Norris stated that, in his opinion and the opinion of his directors, they have exhausted every reasonable effort to handle the situation by direct action and should increase the rate, regardless of what rate may be necessary and the temporary effect it may have on business. He stated they believe a 6% rate would enable them to handle the situation, but he

would not like to make a promise. He also stated that if it can be done without accumulating all the bills in the System, he thought the bill rate ought to be below the discount rate. He stated that the use of speculative credit is the real issue and if a 6% rate is not effective he would go to 7% or 8%.

GOVERNOR FANCHER

Up to the last meeting on March 8, our directors felt that there was no occasion for an increase in rate. The Executive Committee has had power but did not feel that a change was necessary. If we were to simply review conditions in the 4th Federal Reserve District, we might continue in that frame of mind. However, our Board meets tomorrow and attention will be called to a changed condition.

Our assets reached a total, on December 23, of $220,000,000 and our reserve percentage was 57%. Our member banks owed us $118,000,000 and we had $55,000,000 of bills. On March 12 our total assets were $121,000,000, our bills $25,000,000, our member banks owed us $62,000,000 and our reserve percentage was 74%, a liquidation of $86,000,000. (According to records, the figures quoted by Governor Fancher are not correct.) On April 2, our total assets were $151,000,000, our member banks owed us $98,000,000, our bills were $22,000,000 and our reserve percentage was 68.7%.

There has been some change in rates on the part of member banks. Larger borrowers were paying 5 1/2% to 5 3/4%. The bottom rate is now 5 3/4%. Cleveland had not charged over 6% but in Cincinnati, for some weeks past, they have been charging brokers 7%. Cleveland recently raised to that figure. The usury laws prevent charging more than 6% in Pittsburgh.

I do not know what our directors will do tomorrow. I am inclined not to advocate an advance in rates. Heretofore we have followed New York and Chicago and I question whether our Board would approve an increase tomorrow. If the other banks should raise, we would of course be forced to follow.

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In reply to an inquiry by the Governor as to whether everything that reasonably can has been done by direct action, Governor Fancher stated

stated - We have had good cooperation by member banks and do not think we have any abuse of reserve credit. He stated that they have not yet had to be very drastic with their member banks, and if there appear to be abuse, they could be a little more firm in their attitude.

In reply to another inquiry, Governor Fancher stated that he did not believe that business had been slowed down in the 4th district, except in the building line.

He also stated that in the event of an increase in the rate of the Cleveland Bank, the probabilities are that borrowers in the district now paying 5 3/4%, would go to 6%.

GOVERNOR SEAY

Eighteen months ago we began to feel some concern about the expansion of credit. We believe that the question of broker's loans has obscured the real credit situation. As I understand it, it is generally admitted that a condition of credit expansion does exist and we recognized that it is due chiefly to expansion of security loans. Both the Federal reserve rate and such direct action as has been taken has had some effect on market rates, but I do not believe either or both is, or are, responsible for the present rates. The fundamental cause is the great expansion of credit in proportion to the gold reserve of the country. The sale of bonds and the disposition of bills drove banks into the Federal Reserve System through rediscounts. The liquid funds of the country appear to be loaned up and the only recourse is to go into the System. Our object is to bring about some permanent relaxation of credit and a corresponding reduction in interest rates. Some such action is imperative, and if a 6% rate is to be regarded as all, it will not succeed. There can be control by the discount rate because that is the greatest check that the members have on their own lending to their borrowers. It is a final argument for not making loans. I do not believe the discount rate, if we choose to put it as high as we will, will control this credit. If industry is to be saved, it must be saved by some relaxation in the credit strain and some lowering of the rate. Our discounts are larger now than in four years, our reserve deposits are lower, loans on securities of reporting member banks are up and other loans are down. There is no doubt that our district, along with other districts, is being drained for use in the money centers for speculative purposes. I cannot speak conclusively for our directors, but we have felt that the larger banks, which raised rates, did not do so soon enough. I know our directors feel that business in their

localities is demoralized and drained. They feel it is up to the larger districts to exercise a controlling influence - they do not feel that the smaller districts can.

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In reply to an inquiry as to whether there has been any abuse of credit facilities in his district, Governor Seay stated that there are some excessive borrowers who are borrowing on governments.

In reply to another inquiry as to whether, in his opinion and the opinion of his directors, everything that reasonably can, has been done by direct action to prevent abuse of the credit facilities of his bank and the rate should be advanced, Governor Seay stated that he believed he could so interpret the feeling of his directors.

In reply to a question as to how far his bank would be prepared to go in increasing rates, Governor Seay replied that he would not care to look above 7%.

GOVERNOR BLACK

On December 31 we had three member banks which had $1,600,000 in New York; one loan was $1,400,000. On February 6 there were three banks which had brokers loans in New York of $4,900,000, on February 20,$6,100,000, on February 27, $5,200,000, on March 3, $3,000,000 and March 20, $2,800,000. One bank, which has $2,600,000, is borrowing from us. Our rediscounts on December 31, was $89,000,000. On February 2, they were $64,000,000, and today they are $55,000,000.

Insofar as our district is concerned, there is no occasion to raise the rate. I think a 6% rate would be detrimental to business in that territory. I was in favor of the tentative suggestion of the conference as an expression of opinion as to what is necessary as a matter of policy in restricting the misuse of Federal reserve credit, but I do not think it would be necessary for our bank to go above 5%. I do not think we should raise if it can be avoided.

GOVERNOR McDOUGAL

Our Board believes that the discount rate should be regulated by the going rate for money and should be maintained at a point equal to or slightly in excess of that rate. Our rate now would have to be 6% or higher to be in that position. We have recognized, that based on our standards, our rate is out of line. On March 15th the consensus of opinion of our Board was in favor of an advance. On March 27th I recommended an increase and the matter was carefully considered. We had reason to believe that it probably would not secure favorable action by the Federal Reserve Board, so the meeting was adjourned until March 28th. At that time the situation was very carefully considered. Seven directors were present and an informal vote showed six in favor of an increase. One of our two absent directors also favored an advance. We believe the conditions current justify an advance in rate. We think we are in an emergency. The emergency is the danger which exists because of the tremendous expansion of credit. The reserves that belong in this country and those from abroad underly it.

It is clearly demonstrated that this over expansion, traceable to the speculative loan situation, has involved to a considerable extent, the use of Federal reserve funds. I believe our rate should be advanced because we are out of line and that an advance in rate would, to some extent, safeguard Federal reserve funds against greater misuse. The Chicago bank has undertaken to safeguard its credit. We sent out letters which were well received. I believe the Board's public statement and the Federal Advisory Council's recommendation and the action taken by the Federal reserve banks have had a very beneficial effect. We have a few outstanding borrowers in our district but they have endeavored to cooperate.

About ten days ago, as a last resort, I called personally on our four largest borrowers in Chicago, reviewed the situation, discussed it with them and told them we had reached the point now where I would have to say to them that we could not continue loaning to them for the purpose of either extending or sustaining security loans, and that whatever steps might be necessary to reduce borrowings, must be taken. They recognized the importance of doing something, and two large borrowers got together and were going to call some loans. They did so and also had a meeting with six of the large Chicago banks. They were in agreement as to the necessity for doing something. Two banks, not in debt, were brought in for the express purpose of warning them not to let the back-fire come into their banks. The following Monday I went to Detroit and told the branch directors of the situation. and what had been done in Chicago. I also thought their local banks and possibly the directors of the branch were not in accord with what we considered to be proper borrowing, which I explained to them. I was told that they had increased their rate to brokers. They had a meeting of the Clearing House. As a result of the action taken by Chicago, loans were called, but they had no call money in New York. One bank had a large amount on call and that was brought back to Chicago. I think this strengthened the pressure. Immediately following the action in Chicago, two banks called me the next morning and stated that the local exchange was in a panic and something must be done. I told them that we did not desire to see a crash and might suggest to them to lend some money.

We feel strongly that the conditions justify an advance in rate and that our Board has felt that way for some weeks. The expansion is easily traceable to security loans and investments and there is no increase in the commercial demand. A large amount of credit found its way into wrong channels, but we

do not believe that our member banks undertook to abuse Federal reserve credit when they got the credit. The practice of corporations to invest surplus funds has had a very bad effect in Chicago. Possibly $100,000,000 has gone out that would otherwise be there in the shape of deposits. To a considerable extend, the credit we have created has been misused.

In reply to an inquiry by Governor Young as to whether everything that reasonably can be has been done, and that it is the opinion of his directors that the rate of the bank must be increased, Governor McDougal replied that he does not think they have accomplished that by direct action, but that they are now at about the limit of it, although they are now reeping the benefit. He stated they felt they have done everything that reasonably can be done.

In reply to another inquiry, he stated that he cannot say now that his directors would go beyond 6%. He stated that would depend on conditions and it might easily develop that it would be advisable to again increase the rate.

As to the effect of increased rates on business, Governor McDougal stated that all of his directors, except one, felt that the penalty would be far less to increase the rate now, and he thought further if necessary, than to let it go along as it is now. He stated that he did not believe that counter rates could be maintained in Chicago much longer at 5 1/2% to 5 3/4%, even if the discount rate is not put up. He stated that if the discount rate is raised, it will have some effect on counter rates, probably raising them to 6%. He stated that if developments seem to justify a further increase beyond 6%, he would be for it, although he could not speak for all of his directors. He stated that nothing will accomplish the safeguarding of Federal reserve credit as well as an adjustment of the discount rate, and with regard to the bill

rate, he thought they ought not to have a buying rate that will bring all of the outstanding acceptances into the system.

333-b-1

February 26, 1929.

Dear Mr. Case:

I acknowledge receipt of and have brought to the attention of the Board your letter of February 25th, advising of further sales from the Open Market Investment Account, bringing the net balance in the account down to $43,500,000. The Board notes your statement that the demand for short term governments has fallen off, and that it seems unlikely you will have further inquiries from the market during the next few days.

Very truly yours,

(Signed) R. A. Young

R. A. Young,
Governor.

Mr. J. H. Case, Deputy Governor,
Federal Reserve Bank,
New York, New York.

Copy - original in N.Y. weekly letter of Open Market transactions - 1929.

FEDERAL RESERVE BANK OF NEW YORK

CONFIDENTIAL February 25, 1929.

Dear Governor Young:

I have your letter of February 22 and am glad to report as to recent sales from the Open Market Investment Account and as to its present status.

Governor Harrison, in his letter to you under date of February 13, reported sales aggregating $21,500,000, which left a balance in the account of $53,925,800. You will recall that at a meeting of our Executive Committee a week ago at which you were present it was agreed that a moderate amount of further sales was desirable as and when the market could absorb additional offerings without demoralization. Since that time there has been sold from the account a total of $10,425,800, leaving a net balance in the account of $43,500,000, made up of two issues only; viz.:

$13,500,000 - December 15 - 4¼% certificates

$30,000,000 - December 15, 1932 3½% Treasury notes

In addition to the sales referred to, from the System Account, there were $2,000,000 of short-term Governments which we held temporarily in the investment account of this bank and which have also been disposed of. These sales have been made gradually as bids have been received from the market, but with call money rising today to 9% and with the probability that it will remain high during the balance of this month, the demand for short-term Government securities has fallen off and it seems unlikely that we will have further inquiries from the market during the next few days. If, however, any further changes occur in the account, I shall be glad to write you again, next week.

Faithfully yours,

(Signed) J. H. Case,

J. H.Case, Deputy Governor.

Honorable R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Rec'd 2/26/29

Mr. Case

333.8-1

February 22, 1929

Dear Mr. Case:

Carded

For the past two weeks or more the System has been selling Government securities, and I assume from what transpired at your directors' meeting last Monday, sales will continue. Will you, therefore, be kind enough to report the details to the Board, say once each week? I am suggesting once a week rather than that each individual transaction be reported, both for your convenience and the convenience of the Board.

If I remember correctly, the last letter we received from the Open Market Committee was one from Governor Harrison reporting that a total of $21,500,000 had been sold. If you will report from there on it will be very much appreciated.

Thanking you, I am,

Yours very truly,

(Signed) R. A. Young

R. A. Young,
Governor.

Mr. J. H. Case,
Deputy Governor,
Federal Reserve Bank,
New York City, N. Y.

See Ans 2/25/29

333.4-1

February 14, 1929

Dear Governor Harrison:

This will acknowledge receipt of your letter of February 13, enclosing copy of your letter of the same date to the governors of the Federal reserve banks not represented on the Open Market Investment Committee.

It is observed that the Open Market Investment Committee has disposed of $21,500,000 of Government securities to offset the importation of approximately the same amount of gold; that sterling has strengthened and there does not appear to be any immediate likelihood of further gold imports from that point, and in the circumstances no further sales of securities are contemplated at the moment; and also, that there may be a gold movement from Berlin to New York and it may be necessary for the System to make advances to the Reichsbank on the gold in transit.

I had already reported this information to the Board and it had approved the sale of Government securities, and has no objection to your making temporary advances to the Reichsbank on gold in transit. It would, however, like to be advised as soon as you know definitely the amount of the advance or advances, and I assured the Board this information would be furnished by telephone and confirmed by letter.

Thanking you for keeping the Board advised, I am

Yours very truly,

(Signed) R. A. Young

R. A. Young,
Governor.

Mr. Geo. L. Harrison, Governor,
Federal Reserve Bank,
New York City, N. Y.

FOR SPECIAL CIRCULATION

PLEASE READ CAREFULLY, INITIAL AND RETURN TO SECRETARY'S OFFICE

Gov. Young ✓ Mr. Hamlin ✓ Mr. James absent
Mr. Platt ✓ Mr. Miller ✓ Mr. Cunningham ✓ Mr. Polk

FEDERAL RESERVE BANK

OF NEW YORK

333.-6

RECEIVED FEB 14 1929 THE GOVERNOR

CONFIDENTIAL

February 13, 1929.

Dear Governor Young:

Carded

For your information, I am glad to enclose herewith a copy of a letter which we have to-day sent to the governors of the Federal reserve banks not represented on the Open Market Investment Committee, relative to the sales of government securities to offset current gold imports. You may remember that I discussed this matter with you on the telephone last week and that you then informed me that such sales met with the approval of the Board.

While it appears now that the flow of gold from London has been checked, at least temporarily, nevertheless it is very likely that we may get some gold from Berlin as the Reichsbank has cabled us saying that it is possible gold must be shipped and inquiring whether there would be some way of our making an advance against the gold in transit. This rather indicates some pressure for dollars on their part. While no amounts are mentioned in the cable, nevertheless since the Reichsbank already has $3,000,000 of gold earmarked with us, I assume that their needs must be for an amount in excess of this or there probably would be no occasion for further shipments. I shall, of course, keep you advised.

Noted

FEB 14 1929

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

Hon. R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

See ans 2/14/29

FEDERAL RESERVE BANK
OF NEW YORK

CONFIDENTIAL

February 13, 1929

Dear Governor :

As we telegraphed you on February 7, the Open Market Investment Committee, with the approval of the Federal Reserve Board, decided to dispose of some of the System's holdings of government securities, as it might have an opportunity to do so, in order to offset current gold imports.

As you may remember, early in January we earmarked approximately $65,000,000 for foreign account. Much of this, however, was offset by gold imports from Canada. Since the first of February, owing to the weakness in sterling exchange, we have received $22,000,000 of gold from London. During the past week, or since February 7, the sales from the System Account, as you have already been advised, have been about $21,500,000; just a little less than the total amount of gold received from London. Since the increase in the discount rate of the Bank of England, sterling has strengthened and there does not appear to be any immediate likelihood of further gold imports from that point. In the circumstances no further sales of securities are contemplated at the moment although we may soon get gold from Berlin.

I hope that this procedure meets with your approval and that if there are any further inquiries which you care to make that you will please be good enough to let us know.

Very truly yours,

George L. Harrison
Governor