Form F. R. 567

Became FOMC

END SHEET

KIND OF MATERIAL OR NUMBER 333.-c-1

NAME OR SUBJECT Open Market Policy Conference
Open Market Operations

DATES (Inclusive) 1931 - Jun 1933

PART NUMBER Part 2

333.C-1

RECEIVED
JUN 24 1933

FEDERAL RESERVE BANK
OF RICHMOND

June 23, 1933

Honorable Eugene R. Black, Governor,
Federal Reserve Board,
Washington, D. C.

Dear Governor Black:

In the absence of Governor Seay, who is away taking a short but much-needed rest, I wish to acknowledge receipt of your letter of June 22nd, in reply to his of the sixteenth. Upon receipt of your letter I called up Governor Seay over the long-distance phone and read it to him, and he wishes me to acknowledge receipt of it to you with appreciation.

With kind regards, I am,

Sincerely yours,

Chas. A. Peple

Chas. A. Peple
Deputy Governor

CAP:N

Richmond
333.C-1

June 22, 1933

Mr. George J. Seay, Governor,
Federal Reserve Bank,
Richmond, Virginia.

Dear Governor Seay:

I have your very kind letter of June 16th/and upon receiving it I telephoned you.

I appreciate very much the spirit in which your letter was written. I beg to advise that I discussed it with the Board at its last meeting and am enabled to state that the actions of the Executive Committee are in line with the desires of the Board and that we will, of course, be glad for the reserve banks to act together in participating in current market operations.

With my warm regards always, I am

Sincerely yours,

Governor.

B-C

FILE COPY

6/23/33

333. C-1

FEDERAL RESERVE BANK
OF RICHMOND

JUN 16 1933

June 16, 1933.

Dear Governor Black:

I am writing to thank you for calling me on the phone this morning to explain the position relative to the open market transactions now being carried on.

I believe you know that I am willing and this bank is willing when the System acts in matters of this nature to act as a body, even when the independent judgment of different banks does not approve; and that spirit has always governed administrators of the several Federal Reserve Banks. As I have written before, while it is impossible to force judgment, it is entirely possible to surrender it; and if the Federal Reserve Board thinks that it is desirable for all of the Federal Reserve Banks to act as a unit in participating in current market operations, we will, upon being so advised, very cheerfully go along with the program.

The Federal Reserve Board, under the law, clearly has the power to approve or disapprove open market transactions, and if we can construe the approval of the Federal Reserve Board in this case as meaning that the System should act as a unit, it will be perfectly satisfactory to us.

Very truly yours,

George J. Seay

GEORGE J. SEAY,
Governor.

GJS-CCP
(Dictated but not read before leaving the city.)

Honorable Eugene R. Black, Governor,
Federal Reserve Board,
Washington, D. C.

6/22/33

C-1

June 15, 1933

Mr. W. W. Hoxton, Chairman,
Federal Reserve Bank,
Richmond, Virginia.

Dear Mr. Hoxton:

I was delighted to receive your letter of June 12th.

I hope you will find an opportunity to discuss with Governor Seay the topic which was discussed between us when I had the pleasure of seeing you in Washington recently.

Mrs. Black and I enjoyed so much seeing you and I hope that matters will work out so that we may often have an opportunity of being with you.

I am also planning to see Mr. Delano tomorrow, since he was kind enough to call on me yesterday when unfortunately I was out.

With every good wish, I am

Sincerely yours,

Governor.

B-C

333.C-1

FEDERAL RESERVE BANK
OF RICHMOND

JUN 13 1933

PERSONAL

June 12, 1933

Hon. Eugene R. Black, Governor
Federal Reserve Board
Washington, D. C.

Dear Governor:

I find on my desk this morning a copy of the telegram sent on Saturday by Governor Seay to Burgess, New York. I notice that Governor Seay also sent a copy of this telegram to you. Inasmuch as I left Richmond for Washington about noon on Saturday I did not know about this telegram when you and I were talking on the Washington roof, although had I seen it in advance I would have interposed no objection on account of the action of our Board taken at our meeting last Thursday.

I think the feeling of all of us has been a wish to cooperate in every way possible with our Government. We do not wish of course, to buy big blocks of governments at this time, on our own initiative, or on the initiative of the Executive Committee of the Open Market Conference, but I do believe that nobody would object to going along if we should receive assurances from some official and authoritative source such as the Secretary of the Treasury or the Federal Reserve Board that the purchases are to be made in furtherance of the Government's needs and wishes.

This morning I repeated to Seay what you had to say on Saturday night and I think it will be very helpful if you would have a talk with him over the telephone on this subject. He is leaving for a two week's vacation on, or about June 16th. As I told you our Board of Directors gave him full discretion in the matter of joining in or abstaining from further purchases of governments at this time, and our Board concurred in the views which he expressed and which were set forth in his letter to Dr. Burgess, a copy of which also, I understand, was sent to you. If he is made to understand by you that the present open market policy is designed to meet the wishes of the Treasury Department, even though the Treasury Department does not come out flatfootedly and say so, it seems to me that there would be a chance to harmonize the whole situation.

See 6-2-33

Sincerely

W. W. Hoxton

W. W. Hoxton
Chairman

See letter 6/15/33

For CIRCULATION
~~Gov. Black~~
Mr. Hamlin
Mr. James
~~Mr. Magee~~
Mr. Miller
Mr.
Mr.
~~Mr. O'Connor~~
Mr. Morrill
Mr. McClelland
~~Mr. Wyatt~~
~~Mr. Paulger~~
Mr. Smead
Mr. Goldenweiser
Mr.
Please note - Initial and return to Mr Carpenter

JUN 12 1933
OFFICE OF THE GOVERNOR
FEDERAL RESERVE BOARD

333.C-1

Copy of telegram from Federal Reserve Bank of New York

13EDFH

NEW YORK NY 1257 PM June 10, 1933

SEAY
RICHMOND

EXECUTIVE COMMITTEE HAS AGREED UPON SOMEWHAT SMALLER PURCHASES OF GOVERNMENTS FOR CURRENT STATEMENT WEEK THOUGH PRECISE AMOUNT IS NOT YET DETERMINED THUS FAR ABOUT $7,000,000 HAVE BEEN PURCHASED UNDER FORMULA TO MAKE DISTRIBUTION IN ACCORDANCE WITH PERCENTAGES OF EXCESS RESERVES ABOVE 55 PERCENT RATIO YOUR SHARE OF THE PURCHASES WOULD BE 6 PERCENT WILL YOU KINDLY ADVISE ME BY WIRE IF YOU ARE PREPARED TO TAKE THIS PARTICIPATION.

BURGESS 1206 PM

* *

Copy of reply from Federal Reserve Bank of Richmond

June 10, 1933

BURGESS
NEW YORK

WE ARE GLAD YOU ARE DECREASING THE AMOUNT OF PURCHASES BECAUSE WE ARE NOT IN SYMPATHY AS NOW BEING MADE. WE WILL ACCEPT OUR ALLOTMENT FOR CURRENT PERIOD, BUT OUR DIRECTORS FULLY SUPPORTED THE POSITION TAKEN IN MY LETTER TO YOU, AND UNLESS FUTURE PURCHASES ARE MADE AS INDICATED IN THAT LETTER, WE WILL NOT WISH TO PARTICIPATE.

SEAY

See letter 6/12/33

File

333.C-1

June 5, 1933.

Mr. Miller
Mr. Morrill
Mr. Smead
Mr. Goldenweiser
Mr. Wyatt
Please note, initial and
return to
File

Mr. George J. Seay, Governor,
Federal Reserve Bank,
Richmond, Va.

Dear Governor Seay:

I have your letter 5/23/33 relative to Open Market Policy Conference action.

I am hoping that I will have an opportunity to discuss all of this with you in a very short time, as I should like to have your views and give you mine. We will endeavor to arrange for a meeting, and I will not only have the pleasure of seeing you, but have the opportunity of discussing the matter fully.

Thanking you for your letter, I am

Very truly yours,

Governor

FILE COPY

Circulate

333.C-1

June 3, 1933.

Mr. George J. Seay, Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Governor Seay:

Receipt is acknowledged of your letter of June 2 with which you inclosed a copy of a letter of the same date addressed by you to Dr. Burgess as Secretary of the Open Market Policy Conference.

Your letter and the inclosure will be brought to the attention of the members of the Board.

Very truly yours,

Secretary.

CM/rkt

Cm

FILE COPY

FEDERAL RESERVE BANK

OF RICHMOND

333.

For CIRCULATION
Gov. ~~Meyer~~ Black
Mr. Hamlin
Mr. James
~~Mr. Magee~~
Mr. Miller
Mr McClelland
Mr. Goldenweiser
Mr. Smead
Please note - initial and
Return to ~~Secretary~~'s Office
File

June 2, 1933

Federal Reserve Board,

Washington, D. C.

Dear Sirs:

For the information of the Board, I am enclosing copy of a letter which I have today written to the Secretary of the Open Market Policy Conference relative to matters about which the Board already has knowledge.

Very truly yours,

George J. Seay
GEORGE J. SEAY,
Governor.

GJS-CCP

1 Encl.

FEDERAL ... WASHINGTON
JUN - 3 1933

see ans 6/3/33

FEDER. _ F SERVE BANK OF RI. IM. ND

June 2, 1933.

Dr. W. Randolph Burgess, Secretary,
Open Market Policy Conference,
Federal Reserve Bank of New York,
New York City.

Dear Dr. Burgess:

We are in receipt of your letter of the 1st, with which was transmitted the minutes of the Executive Committee of the Open Market Policy Conference.

We note with respect to the first purchase of $25,000,000 of government bonds that the Secretary of the Treasury stated that the Treasury had no opposition to offer to open market purchases, but that he felt there was no necessity for Treasury approval of the proposal. The impression remains with me that it was because of the inflationary program of the Administration that the Conference of Governors passed their resolution to purchase a billion dollars of government bonds to meet the requirements of the Treasury. It is also my impression that if the proposal to buy additional bonds apart from this program had then been made, it would not have been passed by the governors; and apart from this program we do not believe it is either necessary or advisable to add to the System holdings of government securities.

As you know, we have participated in the two purchases made since that time, but if it is not in furtherance of the Treasury's desires and purposes, we will, I think, reconsider our position as to future participation, and I shall bring the matter before our directors at their next meeting.

This program of purchase in amount up to a billion dollars was initiated at the Governors' Conference and not by the Federal Reserve Board and apparently not by the Treasury Department, and, while we are willing to go along with a System program of purchase, if it is simply a matter of voluntary consent by each Federal Reserve Bank, in which entire freedom of judgment will be conceded to it, as heretofore, we will look upon the matter in a different light.

At the conference, I think the opinion was held that we were about to launch upon a long program, and, as preparatory to that, it was proposed that a redistribution or reallotment of System holdings should first be made; but the way in which we have begun these purchases does not conform, in our opinion, to the feeling held by the last conference. I think that is shown, at least in part, by Governor Young's expression of opinion in the Executive Committee meeting. I think it is also shown by the dissent of two other Federal Reserve Banks, in addition to ourselves, to any change in the resolution as then passed. It seems manifest to me that if the Federal Reserve Banks go into the market and purchase at the offering price government securities prior to a Treasury offering for the purpose, as it has been expressed, of toning up the market, we are putting up the securities upon ourselves; and if this action is to be pursued

Dr. W. R. Burgess, Secretary, -2- June 2, 1933
Open Market Policy Conference,
Federal Reserve Bank of New York.

to the end of the purchase of one billion dollars, if made, it seems to me it cannot fail to result ultimately in a very large loss to the System. There is, at least, that probability; and since, according to the tenure of the resolution passed, this program was intended to meet government requirements, the Treasury should feel and have responsibility for the consequences.

We note that the Executive Committee expressed itself on some matters rather extraneous to open market policy operations. We dissent from the feeling expressed in the last paragraph of your letter, that the present requirements of the Federal Reserve Board as to admission of state banks are more strict than circumstances require; and, also, to the implication that the Comptroller is too strict in the reopening of closed banks. We, of course, are judging this matter by our own experience. So far, we have not only approved the rehabilitation plans of that office, but we have been glad to see the Comptroller as strict as he is. Our directors feel that this is an opportunity such as never has been offered to allow only sound banks to open and remain open, and they are in entire concurrence with strict requirements.

Referring once more to System holdings of government securities and the redistribution on some revised allotment plan, we know how difficult it is to define a scientific or equitable plan of distribution when the factors in each Federal Reserve Bank are varied to begin with and are constantly changing. We think that the deposit and currency liabilities as well as the capital liabilities should be taken into the picture. It may be that adjustments according to the reserve ratio (which reflect all of these different factors) would be the proper guide. If, therefore, we are about to enter upon a long program of purchasing government securities in huge amount, during which it will not be a matter of voluntary participation by each or any Federal Reserve Bank but in accordance with a well defined System policy, then we think it should so be outlined from the beginning, and a plan of pro rata distribution should at least be worked out in conjunction with the Federal Reserve Board.

Nothing said in this letter should be construed as unwillingness to go along with a definite policy determined by the Federal Reserve Board, which has, as we know, ultimate control over open market transactions — all of it in furtherance of Treasury requirements under the so-called inflation bill. If it is going to remain throughout a matter of voluntary participation by each Federal Reserve Bank, in which everybody is willing to concede the exercise of independent judgment, it is wholly another matter. Judgment is a quality with which it is impossible to compromise, but judgment can be abrogated and any policy followed which has been laid down by those in superior authority.

I am sending a copy of this letter to the Federal Reserve Board.

Very truly yours,

GJS-CCP

GEORGE J. SEAY,
Governor.

333-C-1

FEDERAL RESERVE BANK
OF RICHMOND

May 24, 1933.

Dear Governor Black:

5-23-33

On yesterday I sent you telegraphic correspondence with Governor Harrison relating to the resolution passed at the last Open Market Policy Conference with respect to the further purchase of government securities. I am now sending copies of exchange of telegrams with New York today concerning the purchase of $25,000,000 of government securities, which we were advised the Executive Committee of the Open Market Policy Conference determined upon yesterday.

You will observe our position. We are willing to go along with the plan of the President with respect to that portion of what is known as the Inflation Act which refers to negotiations with Federal Reserve Banks for the purchase of government bonds. Preparatory to acting under that bill, the last conference expressed the opinion that there should be a readjustment in the System of holdings of government bonds. At that time I agreed provided it was pursuant to a policy laid down by the Federal Reserve Board.

We already have more government securities than we think we should have, and we are not agreeable to a voluntary readjustment between Federal Reserve Banks which will give to those Federal Reserve Banks whose reserve ratios are high some proportion of the holdings of other Reserve Banks whose ratios are low. I have therefore made it plain in my telegram that, while we are willing to go along in furtherance of a specific plan approved and inaugurated by the Federal Reserve Board in pursuance of the policy of the President, we are not willing otherwise to increase our holdings of government securities.

I am firm in the conviction that if we purchase any such amount of government securities as is contemplated, it will result in a heavy loss to the Federal Reserve System, and while we are willing to join in any plan which the Board makes a System plan, both with respect to the adjustment of the present System holdings and future purchases, we are not willing to take over from the other Federal Reserve Banks simply because our reserve ratio is high, any proportion of the bonds which they now have.

I trust that you will consider this as the expression of entire willingness to cooperate upon a System plan, but in our opinion it should be a coordinated System plan.

GJS-CCP

Very truly yours,

George J. Seay

GEORGE J. SEAY, Governor.

Hon. Eugene R. Black, Governor,
Federal Reserve Board,
Washington, D. C.

Copy for Governor Black
Federal Reserve Board.

COPY OF TELEGRAM FROM DR. W. RANDOLPH BURGESS

New York, May 24, 1933

Seay

Richmond, Va.

In accordance with a vote of the Executive Committee of the Open Market Policy Conference meeting yesterday concerning which you have been advised by Governor Harrison's telegram, there has been purchased for delivery today $25,000,000 of Government securities. Pending a final working out of a satisfactory plan for allotment based upon reserve percentages, purchases made for delivery today will be allotted on the basis which has been used heretofore. On this basis your allotment will be $1,250,000. Kindly advise us by wire if you will take this amount.

Burgess.

COPY OF TELEGRAM IN REPLY TO ABOVE

RICHMOND, May 24, 1933

Burgess
New York

We will accept our pro rata of purchase of $25,000,000 governments, but we will not consent to any allotment of bonds already held in the System that is not a part of a specific plan, approved and inaugurated by the Federal Reserve Board in pursuance of the policy proposed in the inflation bill.

Seay.

333.C-1

May 24, 1933.

Mr. George J. Seay, Governor,
Federal Reserve Bank,
Richmond, Va.

Dear Governor Seay:

Thank you very much for your letter of May 22/sending me the pamphlet THE PRESIDENT'S MONETARY PROGRAM. I am going to read it with great interest, and appreciate your courtesy in sending it to me.

With warm regards, I am

Sincerely yours,

For CIRCULATION:
Mr. Hamlin
Mr. James
~~Mr. Magee~~
Mr. Miller
~~Mr.~~
Mr. ~~Harrison~~ O'Connor
Mr. Morrill
Mr. McClelland
Mr. Wyatt
Mr.
Mr.
Please note - initial and return to GOVERNOR.

FEDERAL RESERVE BANK OF RICHMOND

RECEIVED
333. MAY 24 1933
OFFICE OF THE GOVERNOR
FEDERAL RESERVE BOARD

May 23, 1933.

Carded

Dear Governor Black:

I received today a telegram from Governor Harrison, sent from Washington, relating to the proposed change in regard to the purchase of government bonds adopted at the last conference, with which you are doubtless familiar. I venture to send you a copy of my reply.

See 5-22-33

I sent you on yesterday copy of a pamphlet written by Dr. Lionel D. Edie, in which he emphasizes the opinion that purchases of governments should not be focused entirely upon the New York money market, overconcentrating and oversaturating that market with money; but such purchases should be decentralized in a manner that will put surplus funds into each of the Federal Reserve Districts. That is very firmly my opinion.

It is futile to argue that funds put into the market for government securities chiefly in New York will overflow into other districts.

If Governor Harrison happens to be in Washington when this reaches you, I wish you would show him that pamphlet of Dr. Edie's.

Very truly yours,

George J. Seay
GEORGE J. SEAY,
Governor.

GJS-CCP

Hon. Eugene R. Black, Governor,
Federal Reserve Board,
Washington, D. C.

See letter 5/24/33
see ans 6/5/33

MISC. 105

CONFIRMATION

FEDERAL RESERVE BANK OF RICHMOND

OUTGOING PRIVATE WIRE TELEGRAM

SENDER	DEPARTMENT	TIME WRITTEN	CHARGE SYMBOL
GJS-CCP	Bank Adm.	3 P.M.	OC-1

To Harrison
Care Federal Reserve Board
Washington

DATE May 23, 1933

Telegram received. I do not approve amendment of the Conference resolution as suggested, nor do I approve purchases in one market, as heretofore made, believing it to be futile now as it was before, nor do I approve adding further to System holdings of Governments except at the behest of the Treasury and in direct furtherance of Treasury plans. I agree with Glass that we should not be clogged up with government bonds and I think any action of that kind should be at the direct request or suggestion of the Treasury in conformity with the inflation act

Seay

CONFIRMATION

Form 148b

333.C-1

TELEGRAM

FEDERAL RESERVE BOARD
WASHINGTON

May 23, 1933.

C. J. Seay
Richmond

W. S. Johns
Atlanta

W. McC. Martin
St. Louis

W. B. Geery
Minneapolis

G. H. Hamilton
Kansas City

B. A. McKinney
Dallas

J. U. Calkins
San Francisco

At a metting of the Executive Committee of the Open Market Policy Conference in Washington this morning it was unanimously voted that the authority given to the Executive Committee at the last meeting of the Open Market policy Conference which limits the right to purchase government securities either in the market or direct from the Treasury "to meet Treasury requirements" should be amended so as to remove that restriction in order that purchases of securities may be made promptly if in the judgment of the Committee such purchases are considered desirable whether or not to meet Treasury requirements STOP This action would enlarge the powers of the Executive Committee so as to conform to the broader action of the Federal Reserve Board in approving the resolution of the Open Market Policy Conference without limitation as to Treasury requirements. STOP A majority of the Conference has agreed to this proposed amendment, but I would appreciate an early expression of your views STOP For your further information the committee has voted to buy twenty five million of securities this statement week

George L Harrison

FILE COPY

2—9454

333.C-1

FEDERAL RESERVE BANK
OF RICHMOND

May 22, 1933.

Dear Governor Black:
Ltr. 5-12-33

I sent you as a member of the Executive Committee of the Open Market Policy Conference copies of my correspondence with Dr. Burgess, Secretary of that conference, being in the nature of comments upon the minutes of the meeting. I happened to receive a few days ago a pamphlet, written by Dr. Lionel D. Edie, on THE PRESIDENT'S MONETARY PROGRAM, in which you will find expressed, on pages 12 and 13, the opinion I expressed in the correspondence with Dr. Burgess; to wit, that purchases of government securities, however made, should be decentralized, and that the surplus funds created thereby should penetrate each Federal reserve district and not be concentrated in New York, as has been the case heretofore.

Renewing my good wishes as expressed to you by telegram, I am,

Yours most sincerely,

George J. Seay

GEORGE J. SEAY,
Governor.

GJS-CCP

Hon. Eugene R. Black, Governor,
Federal Reserve Board,
Washington, D. C.

5/24/33

333.C-1

May 15, 1933

Mr. George J. Seay, Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Governor Seay:

Receipt is acknowledged of your letter of May 13, 1933, inclosing copy of a letter addressed by you, under date of May 8, 1933, to Doctor Burgess, as Secretary of the Open Market Policy Conference. This letter, which comments upon the minutes of the last conference and states your own position taken at that conference, which you advise was fully supported by your Board of Directors at its last meeting, is being brought to the attention of the members of the Federal Reserve Board.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary

EMM/faf

FILE COPY

Gov. Black ✓
For CIRCULATION

FEDERAL RESERVE BANK
OF RICHMOND

332.C-1

Mr Hamlin
Mr. James
Mr. Morse
Mr Harrison
Mr. Goldenweiser
Mr. Smead

Please note - initial and return to Secretary's Office

May 13, 1933.

Federal Reserve Board,

Washington, D. C.

Dear Sirs:

We are today in receipt of a telegram from Dr. Burgess, Secretary of the Open Market Policy Conference, stating that the Board has approved the action of the last conference with respect to the purchase of United States government securities from the Treasury.

For the information of the Board, I am sending a copy of a letter written to the Secretary of the Open Market Committee (Dr. Burgess) commenting upon the minutes of the last conference, and stating my own position taken in the conference, which was on Thursday fully supported by our Board of Directors.

Very truly yours,

George J. Seay

GEORGE J. SEAY,

Governor.

GJS-CCP
1 Encl.

See ans 5/15/33

FEDER. . F SERVE BANK OF RI IN ND

May 8, 1933.

Dear Dr. Burgess:

I am in receipt of your letter of the 6th, accompanied by a tentative draft of the minutes of the Open Market Policy Conference, which I have read with care, as you suggest.

Subsequent events have made it plain that our action at that conference may be fraught with very grave consequences, although we fully realized it at the time. The text of the minutes reflects the discussion of the suggestion then made that it might be necessary to cooperate with the Treasury by purchasing government securities in the market, in order to support such securities and make public issues possible upon better terms. I stated then, and I state now, that the terms of the resolution reflect my opinion, which is that, if circumstances require us to purchase any large amount of government securities, we should buy them directly from the Treasury, and thus force the Treasury, in effect, to make us its direct instrumentality of expansion, or inflation, which of course is the purpose of the Act, and thus make the Treasury responsible for what might follow.

I stated then, and I state now, that if the Federal Reserve Banks are required to purchase up to three billion dollars of government securities, it is easily conceivable that the entire capital stock of Federal Reserve Banks might be wiped out by market decline in such securities and leave us in the position in which member banks all over the country have been placed by depreciation of their investments. Of course if they were very short-time securities this might not occur in theory, at least, because such securities would be maturing and in theory would be collectible at par; but in fact we would have to take other securities in their place, for, as Mr. Glass stated, we could not possibly market the securities.

COPY

I still think that this form of inflation, by "negotiation" with the Federal Reserve Banks for the purchase of government securities, is the least harmful of any proposed in the bill, because it is more subject to scientific control and would be credit inflation pure and simple. Mr. Glass thinks that the issue of Treasury currency to the extent of three billions of dollars would be less harmful, in which I do not agree with him.

In making these statements I simply wish to emphasize what I stated at the time in voting for the resolution as phrased. I was not then and am not now in favor of purchasing any very large amount of government securities except through and at the behest of the Treasury Department. I voted for the resolution as it was the sense of the conference that a system of allotment of existing holdings should be worked out; but at the same time I stated that it was essential, in my opinion, for the Federal Reserve Banks to be operated as a system if we were to engage in wholesale purchases or even redistribution of government securities now held.

Therefore I would prefer incorporating in the next to the last paragraph of the minutes some allusion to the necessity of operating the Federal

Copy filed 333.31 OMPC attached to 5-6-33

LEDER

Reserve Banks as a system, under the control of the Federal Reserve Board, and requiring the approval of the Board as much as in the purchase of one billion dollars of new securities, as specified in the last paragraph of the minutes.

We of course could not purchase any such volume of government securities as specified in the inflation bill without the waiver of reserve requirements, and without coordination of all the banks under the supervising authority of the Board.

Yours very truly,

GJS-CCP

(Signed) GEORGE J. SEAY,

Governor.

Dr. W. R. Burgess, Secretary,

Open Market Policy Conference,

Federal Reserve Bank of New York,

New York City.

Form 148 b

TELEGRAM

FEDERAL RESERVE BOARD
WASHINGTON

May 12, 1933.

Harrison - New York

The Federal Reserve Board has given careful consideration to the resolutions adopted at the meeting on April 22, 1933, of the Open Market Policy Conference, and has requested me to advise you that it authorizes the executive committee of the conference to proceed with its proposed purchases of United States Government securities up to an aggregate of $1,000,000,000. In granting this authority the Board will expect to be kept informed currently by the executive committee of its program of purchases and as to any developments in the situation which may affect the application of the program. The Board will have the whole matter of open market policy under constant review, and will advise the committee of changes to be made in the program in order more fully to adjust it to the requirements of the national situation.

Morrill.

See minutes

AT EXECUTIVE COMMITTEE MEETING MAY 1 2 1933

FILE COPY

2—9454

333.C-1

MAY 2 1933

Mr. George L. Harrison, Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Governor Harrison:

This letter will confirm the advice given you by Governor Meyer over the telephone on Wednesday of last week that the Federal Reserve Board is in agreement with the proposal, embodied in a resolution adopted by the Open Market Policy Conference at its meeting in Washington on April 22, 1933, that the executive committee of the Conference work out a new system of allotment of existing holdings, as well as future purchases, of Government securities for System account. It is requested that the new method of allotment be submitted to the Board before being made effective.

As Governor Meyer also advised you, action on the other resolutions adopted by the Conference at its meetigg on April 22 has been deferred pending further consideration by the Board.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

SRC/EMM/acw

See tel. 5/12/33

FILE COPY

333-C-1

4/22/33

Resolution

It is the sense of the conference that while, as a general principle, the average maturity of Government securities held in the system account should be kept as short as possible, nevertheless, in the present emergency, and especially in view of the need of full cooperation with the Treasury in meeting its fiscal problems, the executive committee should be authorized from time to time to shift maturities in the system account as conditions in the market or requirements of the Treasury appear to make that advisable. Furthermore, it is understood that in replacing maturities in the system account, the executive committee will use its discretion in the light of existing conditions and this resolution in selecting replacements.

(Unanimous)

see telegram 5/12/33

333.-C-1

4/22/33

Resolution

It is the sense of the Open Market Policy Conference that, subject to (the) approval of the Federal Reserve Board, the executive committee be authorized to arrange with the Secretary of the Treasury from time to time to purchase up to $1,000,000,000 of Government securities to meet Treasury requirements.

(Unanimous, with Deputy Governor McKay not voting)

See telegram 5/12/33

333.-C-1

4/27/33

Resolution

It is the sense of the conference that the executive committee be instructed to work out a system of allotment of existing holdings as well as new purchases of Government securities with a view to arriving at a more equitable relationship of reserve percentages of the several Federal reserve banks.

see Telegram 5/12/33

Excerpt from the Minutes of the Meeting of the Federal Reserve Board with the Governors of the Federal Reserve Banks, April 22, 1933

333.-C-1

Governor Harrison stated that a meeting of the Open Market Policy Conference was held this morning at which the following resolution was adopted, Deputy Governor McKay not voting:

* * * * * *

Governor Harrison stated that the resolution was approved in this form with the idea, not that all purchases of securities made pursuant thereto would be made directly from the Treasury Department, but that purchases would also be made in the open market whenever conditions made such action desirable; that it was the feeling of the conference that the resolution was necessary to prepare the System to make arrangements with the Secretary of the Treasury along the lines proposed in the Thomas Bill; and that, even if that bill is not enacted into law, it is felt that the committee should be free to act if a situation developed which would require the Treasury Department to turn to the Federal reserve banks for assistance.

Governor Harrison then presented the following resolutions which he stated had been unanimously approved by the Conference:

* * * * * *

Governor Harrison stated that, in approving the first of the two resolutions quoted above, it was not intended that there should be any change in the fundamental policy of maintaining a portfolio of Government securities with short maturities, but that the resolution would give to the committee authority to adopt a more liberal policy as to longer maturities than it has had in the past, and, as there does not seem to be much need to anticipate a major liquidation of the System account, it was felt that consideration might be given to the advisability of acquiring longer maturities, at the appropriate time, for the purposes (1) of avoiding the

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wide spread between the yields on short and long term maturities, and (2) of toning up the market for short maturities which would enable the Treasury Department to market an issue of securities without the assistance of the Federal reserve banks, where such assistance might otherwise be necessary. Governor Harrison added that it was not considered that the situation required immediate action by the Federal Reserve Board on these resolutions.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date February 28, 1933

FEB 2 8 1933

-C-1

To Mr. Gardner

Subject:

From Mr. Carpenter

2—8495

In accordance with our telephone conversation, there is attached hereto a copy of the letter addressed by the Board to the Chairman of the Open Market Policy Conference on July 20, advising of approval by the Board of the action taken by the Open Market Policy Conference at its meeting on July 14, 1932.

No action was taken by the Board and no communication was sent to Governor Harrison following the meeting of the Conference on November 15, 1932, at which it was expressed as the consensus of the Conference that no change should be made at that time in the amount of System holdings of Government securities.

There is also attached a copy of a letter addressed to Governor Harrison under date of January 6, 1933, with regard to the resolution adopted by the Conference at its meeting on January 5.

Mr Carpenter

333,-C-1

FEDERAL RESERVE BANK

OF NEW YORK

January 9, 1933.

Dear Mr. Morrill:

Let me acknowledge your letter of January 6 confirming the approval by the Federal Reserve Board of the resolution adopted by the Open Market Policy Conference at its meeting on January 5, 1933.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Secretary, Open Market
Policy Conference.

Mr. Chester Morrill,
Secretary, Federal Reserve Board,
Washington, D. C.

WRB/H

September 24, 1929 -- Meeting of the Open Market Investment Committee

Action recommended:

The Committee recommended that it be authorized to purchase not to exceed $25,000,000 a week with the understanding that such purchases be made under the following conditions and with the understanding that there be a careful review of the consequences of such purchases:

> "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 distribution, it favors the purchase of Government certificates of the short maturities."

Reasons given for action:

"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 threatens 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."

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"Governor Harrison 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 pre-requisite 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 appeared to have risen continuously toward higher levels, and that the proposed purchase of Government securities, if necessary as a supplement to purchases of bills, might be a helpful influence toward preventing further stringency of money and paving the way in the future for a 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 artifically low rate and would tend to impede or even undo the distribution of bills."

Board action:

At a meeting of the Board on October 1 a letter to the Chairman of the Open Market Investment Committee was approved. The letter, in part, follows:

> "The Board approves of your program to continue the purchasing of bills, if necessary supplement the program by purchasing short-term Government securities for those reserve banks that desire to participate for the purposes mentioned in your recommendation .....
>
> "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."

2

November 12, 1929 -- Meeting of the Open Market Investment Committee

Action recommended:

"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 ... to purchase not to exceed $200,000,000 of government securities, ... 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 below, 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."

Reasons given for action:

"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."

Board action:

A letter was addressed by Governor Young to Governor Harrison on November 13, 1929 advising him that in the opinion of the Board that the general situation was not sufficiently clarified for the System to formulate and adopt a permanent open market policy at that time.

On November 25, 1929 Governor Young again addressed Governor Harrison as follows:

> "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 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."

3.

January 28 and 29, 1930 -- Meeting of the Open Market Investment Committee

Action recommended:

The Committee recommended that the minimum buying rate for bills be reduced so that the Federal reserve banks might have such flexibility in their bill operations that the present portfolio might not only be maintained but might, if necessary, be increased to such extent as to avoid the hardening of rates which might result from a seasonal demand for additional reserve credit, and that, in the judgment of the Committee, no open market operations in Government securities were necessary at that time, either to halt or to expedite the present trend of credit.

Reasons given for action:

The Committee felt that it would have had an unfortunate effect upon business if the demand for additional spring business, concurrently with the running off of the bill portfolio, should result in a hardening of rates, in view of the following: "The facts appear to be: (1) The panicky feeling has subsided; (2) A business recession has taken place, the extent or duration of which is not yet possible to determine; (3) Money has been made available to commerce and industry at more reasonable rates; (4) Liquidation is progressing in an orderly fashion; (5) Rediscounts have been reduced to under $450,000,000; (6) However, there is a large volume of security loans in member banks which they are anxious to get reduced; (7) Liquidation has been slower in country banks than in the city banks."

Board action:

The Board subsequently authorized reductions in discount and buying rates, but took no action on that section of the recommendation affecting the security portfolio.

(4)

March 24 and 25, 1930 -- Meeting of the Open Market Investment Committee

Action recommended:

The Committee recommended that no further purchases of Government securities be made, and that in the interest of flexibility and preparedness for the unexpectedness, the Committee favored a reduction to 2 1/2 per cent in the minimum buying rate on bills. It was the sense of the meeting, however, that in the absence of some development that could not then be anticipated, bills should not be bought below 3 per cent.

Reasons given for action:

"While Treasury tax period operations have distorted the near-time view of the money situation, it is clear that since the meeting of the Committee on January 28 and 29 money conditions have eased substantially and money has become more freely available and the ease has been extended from the short time to the long time money market.

"The Committee believes the steps already taken by the Federal Reserve System in easing the money market through open market operations have gone as far in providing the stimulus of easy money for business use as seems desirable at this time. The Committee believes that at present there is no occasion for further purchases of Government securities."

Board action:

On April 7, 1930 the Board voted to approve the report of the Committee, with the exception of the suggestion that the minimum buying rate be reduced, which was held under review.

Note:* Between March 6 and 14, 1930 $50,000,000 of Government securities originally acquired for the account of the Federal Reserve Bank of New York were taken over as a part of the open market investment account. At the meeting of March 24 Governor Young and Mr. Case reviewed the occasion for the purchase and a general discussion ensued. "In the course of this discussion it was brought out that the primary purpose of the transaction was to attempt to aid business which had developed a more serious depression than had been anticipated at the time of the previous meeting. A number of the governors indicated that they had not been in sympathy with this purchase of Governments and felt that money rates had been eased more rapidly than was desirable. A number of the other governors indicated that they were in accord with the procedure which had been followed."

5

May 21 and 22, 1930 -- Meeting of the Open Market Policy Conference

Action recommended:

No affirmative recommendation as to open market operations was made, but it was the sense of the Conference, that, in view of existing circumstances, if the situation should so develop as to require an open market operation by the system the members of the Conference will be prepared to reconvene or else to act promptly on the recommendations of its Executive Committee.

Reasons given for action:

"The Conference has considered a preliminary memorandum reviewing domestic business and credit conditions and has discussed at length the present trends in world trade, commerce and commodity prices. Particular consideration was given to the rapidly declining volume of our export trade and its probable relation to the decline in commodity prices in this country.

"It appears to the Conference that conditions in business, agriculture and trade are still seriously depressed, not only in this country but evidently throughout the rest of the world as well. It is the sense of the Conference that these conditions merit continuous careful observation by the Federal Reserve System in order that the System will be prepared to act promptly in the event that conditions further develop in such a way as to make action seem advisable."

Board action:

No action appears to have been taken by the Board until the receipt of a telegram from Governor Harrison on June 30, 1930. (See page 7A.)

Note:- "Governor Young indicated that a number of suggestions had come informally before the Federal Reserve Board from various quarters, including the following:

"1. A sale of securities for the purpose of checking speculation, improving bank earnings, and aiding the liquidation of security loans.

"2. A sale of $200,000,000 of Government securities to bring about an adjustment of System earning assets so that rediscounts might be approximately equal to the total of Government securities and bankers acceptances held, this sale of securities to be simultaneous with reductions in the discount rates of a number of the reserve banks.

"3. One reserve bank in order to increase its earnings was considering the desirability of its buying for its own account in the market $500,000 a month of Government securities.

"4. A proposal to purchase Government securities and reduce discount rates to secure a deliberate inflation of credit for the benefit of business, particularly through the bond market.

"5. To do nothing now but to be prepared to meet autumn seasonal requirements for Federal reserve credit (computed at between $350,000,000 and $400,000,000) by purchases of Government securities and increases in bill holdings.

"There followed a brief discussion of the implications of the findings of the last meeting of Governors on March 25. Governor Young indicated that he had hesitated to vote favorably on the New York application for a three per cent discount rate because of the position of Governors at that meeting on March 25. Governor Harrison indicated that the New York Reserve Bank he was sure did not want to be in a position of feeling that they were violating the spirit of the findings of the Open Market Policy Conference in making a change in discount rate following such a conference, particularly when a number of weeks had elapsed after the conference. The decision as to discount rates he regarded as primarily the responsibility of the boards of directors of the respective reserve banks subject to the review of the Federal Reserve Board, and he did not believe the action of the Open Market Policy Conference should be regarded as in any way restricting freedom of action on discount rates. A number of other governors indicated their agreement with Governor Harrison's statement."

56

Telegram from Governor Harrison to the Federal Reserve Board, June 3, 1930

"This telegram is to confirm telephone conversations of Thursday, yesterday, and today. Our directors, while approving unanimously the report of the Open Market Policy Conference of its meeting of May 21 and 22 after a thorough discussion voted on May 29 that in their opinion it now seems desirable for the system to undertake the purchase of Government securities in moderate amounts. In reaching this conclusion our directors had before them evidence that the current business depression was continuing without any important indication of improvement. It was their belief that the hope of greater business activity and increased purchasing power for our surplus products depends at least to some extent upon the financing of new undertakings both at home and abroad through the bond market. While the directors appreciate that it is impossible to forecast accurately the extent of the effect of the proposed purchases, nevertheless they feel that the money position is so delicately balanced that even a slight addition to the available reserve funds might prove helpful both from the point of view of its direct influence on the bond market and in the psychological benefit which might also arise. In any event it seems clear that small purchases of Government securities at this time could do no harm and a test with the hope that they might be of some benefit seems desirable. Since the meeting of our directors on Thursday we have discussed the question of purchases of Government securities with the members of the Executive Committee and a majority of the Governors of all reserve banks are now in favor of purchasing not to exceed $25,000,000 a week of Government securities for the next two weeks with the understanding that at the end of that time the situation would again be reviewed. We should appreciate the action of the Board upon this proposal of a majority of the Conference."

Board action:

"It was suggested that the Board reply to the recommendation of the majority of the Open Market Policy Conference that the Board will approve the purchase of Government securities whenever and to the extent that the earning assets of the Federal reserve banks fall below $1,000,000,000. It was finally voted to approve the purchase of not to exceed $25,000,000 a week of Government securities for the next two weeks with the understanding that at the end of that time the situation would again be reviewed."

6

June 23, 1930 -- Meeting of the Executive Committee of the Open Market Policy Conference

Action recommended:

That in the opinion of the Executive Committee it was not desirable at that time for the Federal Reserve System to undertake any further purchases of Government securities for System account.

Note:- Occasion for this meeting was to review the result of purchases of $50,000,000 of securities in the first two weeks of June, and to determine whether the Executive Committee desired to recommend any further action to the Open Market Policy Conference.

Governor Harrison pointed out that the business situation appeared to be growing worse rather than better, that exports were still falling off, that commodity prices had continued to decline, and that there was no definite indication of a turn for the better. He stated that it was the view of the directors of the New York Bank that the System should continue to do everything possible to establish money conditions which would provide an ample supply of funds for the bond market. He also stated that the recent purchase of Government securities had been followed by some further easing of money rates. " ..... and by some improvement in the bond market, though that market was not strong and was having difficulty in meeting fully the demand for capital funds for business use. This purchase of securities had, however, been largely offset by a decline in the bill holdings of the Reserve System, and it had become clear that in order to keep some surplus supply of funds in the money market and thus stimulate the bond market it would be necessary to continue the purchase of Government securities further. Governor Harrison stated that the directors of the New York Reserve Bank voted at their last meeting that in their opinion further purchases in the amount of about $25,000,000 a week should be continued."

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"Governor Norris stated that the directors of his bank were opposed to any further purchases of Government securities. He indicated that in his view the current business and price recession was to be ascribed largely to over-production and excess productive capacity in a number of lines of business rather than to financial causes, and it was his belief that easier money and a better bond market would not help the situation but on the contrary might lead to further increases in productive capacity and further over-production."

Board action:

Note:- Governor Harrison stated in a meeting of the Executive Committee with the Board that "as he understands the procedure approved by the Board there is no recommendation to be made by the Committee to the Board, but that the Committee meets for the purpose of making recommendations to the whole Conference, which recommendations would then be submitted to the Board. The Committee is making, he stated, a report to the Board that the Committee as a whole voted to make no recommendation as to an open market operation now."

(1) 8a

September 25, 1930 -- Meeting of the Open Market Policy Conference

Action recommended:

"It is, therefore, recommended that the executive committee be authorized, if necessary, to supplement bill purchases by the purchase of government securities in the event that the seasonal demand for Federal reserve credit, gold exports, or other factors should tend unnecessarily to tighten present money rates, and that in the event that any conditions should develop which would require sales of government securities to execute this policy, the executive committee should be authorized to make such sales. It is understood, however, that if the committee should have to buy or sell more than $100,000,000 of government securities to maintain the status quo, new authority should be procured in accordance with the prescribed procedure."

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"Governors McDougal and Calkins voted in the negative and Governor Talley asked to be recorded as not voting. Governor McDougal explained that he voted "no" on the ground that he thought some firming of rates might be advisable at this time. Governor Calkins explained that his negative vote was based upon the fact that authority to buy or sell up to $100,000,000 rather than $50,000,000 might be construed as a further easing policy rather than a policy to maintain the status quo inasmuch as the committee now has authority to buy up to only $50,000,000."

Reasons given for action:

"In view of the continued severe depression in business activity, trade, and commodity prices in this country, as well as the rest of the world, it is the sense of the conference that it should be the policy of the System, so far as possible, to maintain the present easy money rate position in the principal money centers, it being the opinion of the conference that under present conditions no further easing of such money rates would be advisable and that no firming of such rates would be desirable whether because of seasonal requirements, gold exports, or other causes."

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"Governor Harrison reviewed the status of foreign accounts with the Federal reserve banks, and pointed out the changes which had taken place since the last meeting of the conference. He also discussed the general position of the various central banks of issue abroad, calling attention to the fact that the gold reserves of most of those banks have not only increased in percentage but in actual amount during the past year. The increase in the reserve percentage of most of these foreign institutions is due not only to an increase in the actual gold supplies of the respective banks but also to a very substantial decrease in note and deposit liabilities, the decline ranging in most cases from 25% to 50% from a year ago. He pointed out that this, of course, reflected the depression in business and trade which exists in those countries and throughout the world. This depression was further evidenced by the figures which were presented to indicate the substantial decline in both the export and import trade of most every one of the principal countries in Europe, South America, and the Far East."

Discussion:

"There ensued a general discussion of credit policies in which one of the members of the Federal Reserve Board asked whether the conference had considered the advisability of a very much more active open market program involving substantially larger purchases of government securities with a view to forcing upon the country a more active use of credit through the stimulus of such purchases of securities by the System. Governor Harrison explained that that had not been considered specifically because of the fact that the majority of the conference felt so strongly that there is no need for any further easing of the present easy money rate position at the present time."

Board action:

In a letter dated October 2, the Board approved the Committee's recommendation, excerpts from which follow:

> " ... It is the understanding of the Board that the authority asked by the Conference to purchase or sell government securities is to protect the existing level of rates, not to alter it.
>
> "I am writing to advise you that the Board is prepared to approve the purchase or sale of Government securities within the limits proposed in the report, for the purpose of maintaining stability of rates under present conditions, such authority is to run until an agreeable date next January, unless a change in conditions before that time should make a review and reconsideration of open market policy advisable at an earlier date."

6

December 20, 1930 -- Meeting of the Executive Committee of the Open Market Policy Conference

Action recommended:

"Those present agreed that if any real need arose they would be willing to leave it to the judgment of the Federal Reserve Bank of New York whether some additional amount of government securities should be purchased within the $100,000,000 authority with the understanding that the New York Bank would keep in close communication with the members of the Committee.

"With reference to the question as to whether any governments purchased at this time or other governments in the portfolio should be sold after the turn of the year, while it seemed to be the sense of the committee that this would prove undesirable or difficult in all the circumstances, it was agreed that a meeting of the open market policy conference should be held early in January to consider future policies at that time. January 12 was suggested as a satisfactory date."

Reasons given for action:

"Governor Harrison then summarized the credit position, indicating that, owing to some tenseness in the banking situation, the public state of mind was now more sensitive than when the program of the Open Market Policy Conference meeting on September 25 had been adopted, which provided for a possible purchase of up to $100,000,000 Government securities if necessary, as a supplement to bill purchases, to prevent any tightening of the money market due to seasonal or other causes. It was his view that if there was any difficulty in securing an adequate amount of bankers acceptances to take care of all seasonal needs for the next ten days, the committee should be prepared promptly to buy governments rather than have any increase in nervousness arise from any indication of strain in the money situation.

"This question was then discussed by the members of the committee. In the course of discussion reference was made to the banking situation at different important centers, the probable currency and window dressing demands over the first of the year, and problems which had arisen in connection with some discrimination against certain names existing in the market for bankers acceptances."

Board ~~action~~:

(9

January 21, 1931 -- Meeting of the Open Market Policy Conference

Action recommended:

" ..... It is the sense of the Conference that in view of these conditions it should be the policy of the System to continue an easy money policy in the best interest of trade and commerce. It is the belief of the Conference, however, that the seasonal return flow of currency and credit and other factors have tended during recent weeks to make for an undue excess of funds in the principal money centers. It is therefore the opinion of the Conference that in these circumstances it would be desirable to dispose of some of the System holdings of government securities as and when opportunity affords itself to do this without disturbance or any tightening of the money position. It is understood that there shall be a new meeting of the Conference as soon as or whenever conditions in the opinion of the Conference or the Federal Reserve Board justify a reconsideration of this policy."

Discussion:

"Governor Harrison then reviewed for the conference his discussions with European bankers and others and the impressions he gathered on his recent European trip. In the course of extended discussion of these matters Governor Harrison pointed out that the world owes the United States on balance about $600,000,000 each year, and that payment has to be made in gold, in imports from foreign countries to us, or by borrowing from us. These countries were unable to send us much more gold, their exports to us were now limited and new financing curtailed. Their only alternative was to diminish their purchases of goods from us, which was now being doen to our detriment.

"He indicated that the people he met abroad appeared to believe that recovery from the present business depression depends largely on America, partly for psychological reasons and partly because of the importance of exports to us and borrowing from us.

"Generally speaking he felt that the economic situation of European countries had grown distinctly worse since his visit last spring, and has probably grown somewhat worse in the weeks since his recent return from Europe.

" ..... Governor Harrison referred to the reduction of the discount rate of the Federal Reserve Bank of New York, effective December 24, 1930. He indicated that the banking situation was of primary importance in the decision. He had been urged from many quarters to make a reassuring statement which might aid in quieting the banking situation. Such a statement was practically impossible because to be strong enough to do any good it would run the risk of being contradicted by any small bank failure which might thereafter occur. The rate reduction, apart from other reasons, served as a method of stating to the public that money was freely available. The rate reduction was justified technically by the money situation. It would probably help the foreign situation as well as the domestic situation. Incidentally, it might make it easier for France to reduce her rate. The discount rate decision had been made very rapidly, and there had not been an opportunity to discuss the matter with most of the reserve banks. In fact, the proposal had only arisen after the meeting on December 20 of the executive committee of the Open Market Policy Conference.

"Governor Harrison referred to the holdings of sterling bills purchased during the period of greatest weakness of sterling last autumn. He said it had been the intention to sell these bills some time after the turn of the year, when it was hoped that sterling would be strong enough to make an orderly operation. Recent weakness of sterling, however, has made this program seem undesirable up to this time, and instead of the sale of sterling the directors of the New York Bank had voted at their last meeting to sell a part of the securities which had been added to the portfolio of the New York Bank during the recent banking emergency.

"Governor McDougal commented on the recent discount rate change by the Federal Reserve Bank of Chicago and indicated with regard to the last three changes in their discount rate that in the case of the first two of these changes it had been hoped that the reduction in the rate would have some encouraging effect upon business, but that the latest change had been made without any such belief, but was designed to correct to some extent the large differential of 1 1/2% between the Chicago rate and that of the New York Bank.

"Governor McDougal expressed the hope that there would be no further reduction in the bill rate; that money was too cheap with Federal funds quoted at 1/4 of one per cent; and that it would be better for the market to get the bills if it wanted them.

"Governor Calkins suggested that the position should be one in which we kept our bill rate low, but tried to correct any over-sloppy condition in the money market by the sale of government securities. Several of those present concurred in this view.

" ..... Governor Harrison further reviewed the changes in the money market since the last meeting of the Open Market Policy Conference, pointing out that the seasonal expansion in the requirements for Federal reserve credit up to the time of financial disturbances had been less than normal, and bill purchases appeared to be sufficient to take care of seasonal needs without additional purchases of government securities. This appeared to be true, until the banking emergency when the New York Bank had found it necessary to take over securities from two member banks and at the end of the year when purchases were necessary in order to avoid too great tightening of credit due to an unusual amount of "window dressing". Purchases made for the open market account had since been liquidated as had also $20,000,000 of the emergency purchases made by the New York Bank. Since the turn of the year the return flow of funds appeared to have greatly aided the bond market. There had been a considerable excess of reserves of the New York City banks, though this had fluctuated a good deal. It was the general plan of the New York Bank to liquidate the balance of the temporary purchases of $45,000,000 of securities, as the surplus of reserves offered opportunity without interfering with the bond and money market.

"It was moved by Governor McDougal that it was the sense of the conference that the present was an opportune time to let government securities go from the open market portfolio as and when it could be done without undue disturbance, with the understanding that sales should not be made rapidly and should be made in orderly fashion. Governor McDougal explained this motion by saying that some time ago System open market operations had followed a general principle which he believed to be sound, and should be reverted to, that whenever the market is ready to take bills and government securities the Reserve System should sell them, and conversely, the System should acquire them when the market cannot take them readily. On this principle he would like to hold bill rates where they were to push bills out of the System.

"Governor Harrison commented that if we sell governments we should have the bill rate at a point nearer to the market so that we might be ready to take in bills without such a big penalty to the seller. He would not favor any sales of governments unless the bill window were opened to provide in this way any money the market required."

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"Governor Young stated that a sale of $50,000,000 or $60,000,000 of governments might perhaps injure the bond market; that a commercial banker who saw a reduction in government holdings of the Reserve System would be inclined to sell bonds. In any event it was important to decide the general policy whether the conference favored firmer or easier money, or the status quo.

The resolution shown above under "action recommended" was unanimously adopted, following which the discussion was resumed.

"Governor Meyer stated that the banking situation was at present the primary thing to consider, and that whatever policy was adopted should be adopted with that in view. He suggested that bill maturities would respond to changes in the money market, and would act as a buffer in taking up surplus funds. Any proposal for the liquidation of governments should consider the present extraordinary reluctance of banks to show bills payable. The present banking situation was so delicate that it could be easily disturbed.

"Governor Harrison pointed out that the resolutions of the conference represented a compromise since some of those present were in favor of considerable sales of securities, while others were only in favor of such moderate sales as might be necessary to take up some of the slack. Governor Meyer suggested that any move which the Federal Reserve System made in its automatic assets immediately put the acts of the System on the sky-line where they were subject to observation and criticism.

"Governor Harrison indicated that he would not be content with even the proposed moderate program of sales of governments unless the buying rates for bills were nearer to the market rate, as bills coming back to the System would act as a safety valve in case too much funds were with-drawn from the market."

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"After Governor Harrison had left the meeting, Governor Meyer stated that a reduction of bills and discounts of the System did not involve the launching of any major policy, whereas the sale of governments is commonly interpreted as a major move in Federal reserve policy. The Reserve Sys-tem has been accused in a number of quarters of pursuing a deflationary policy in the past year, and a sale of government securities at this time is likely to draw fire. In this situation it would appear most desirable to avoid a move which appears to represent a major change in policy when there is no necessity for doing it.

"Governor Young said that those present would certainly not favor any program which they believed would affect bank confidence, or that was a new and major change in policy. Government bonds had first been bought under an emergency, and their purchase had proved helpful, but there was a limit to what the System could do in buying bonds. Some sales would put the System into a position to go back into the market and buy again if it is necessary.

"Governor McDougal pointed out that no one present was desirous of dumpting securities in the market, but they favored a program that would be worked out gradually. ......"

"Governor Meyer stated that in this position the Board has an appar-ent responsibility to the country; that the world was now in the worst economic condition that he had ever seen. There had been the worst break-down in credit conditions which he had witnessed. The present situation in Germany and Australia in which a nation's credit was at question being cases in point. Unemployment, unrest, and discontent were severe. Un-der these circumstances everything which the Federal Reserve System does which is or may be interpreted as a move in major policy is on the sky-line.

"Governor Calkins stated that the proposal was not considered as a major change in policy, that his idea was that a beginning of sales might be made by letting February 16 maturities of Treasury bills run off. It could not be considered a major change in policy because it provides spe-cifically for the 'continuance of an easy money policy'."

Board action:

On January 29 the Board voted to advise the Chairman of the Open Market Policy Conference that approval had been given to the report as submitted.

(10)

April 29, 1931 -- Minutes of the Open Market Policy Conference

Action recommended:

"VOTED that pending another meeting of the conference, as soon as that may be deemed necessary by the Federal Reserve Board or the members of the conference, the executive committee of the conference should be authorized, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of government securities."

Reasons given for action:

"The question which was discussed by the conference was whether there was any appropriate way in which the Federal Reserve System could take action in order that any further gold imports will have their normal and natural effect upon the loans and investments of member banks.

"Governor Harrison pointed out that this was one of the reasons which had prompted the Federal Reserve Bank of New York in recent weeks to reduce its bill rates, hoping that by that action it would be possible to maintain or even increase the System's bill portfolio in spite of the fact that gold is still coming into the country. He said that to have done nothing with the bill rates would very likely have resulted in a rapid diminution of the bill portfolio of the System as gold came in, not only thereby nullifying gold imports but liquidating the System's earning assets by a substitution of gold, of which we already have a plethora. Governor Harrison then said that it was the purpose of the New York Bank, if necessary, to reduce its bill rate as low as one per cent in the hope of accomplishing its objectives of maintaining or even increasing the bill portfolio in the face of gold imports; that it was likely that next week or the following week he would recommend a reduction in the discount rate. The chief purpose of this program was, he stated, not only to tend to reduce the amount of gold imports or to make those imports that actually take place more effective, but also, by its effect upon the short time money market, ultimately to make credit, of which there is now plenty, especially in the big centers, more active and more widely distributed. It was felt that this policy sooner or later would necessarily, because of its effect upon the short time money rates, encourage banks and depositors in banks, in spite of their present liquidity, to employ their money, which now is becoming relatively so unprofitable. More specifically, he said that he hoped that this policy might encourage the New York Clearing House banks further to reduce their interest rates on deposits.

"In this connection, it seemed to be the general sentiment of the conference that one of the difficulties with the banking situation today is the consequence of the competition of banks throughout the country for increasing deposits at unjustifiably high rates of interest, and that any action which might encourage a more general reduction in those rates could not but be helpful to the banking situation as a whole. Governor Harrison then said that if the policy which the New York Bank has adopted is to become completely effective it requires System cooperation both in the matter of rates and in the matter of open market purchases of government securities for with bill rates as low as they are, in the event that the System's bill portfolio runs off, even after rates may have been reduced to one per cent, the only effective instrument which the System has left to aid in maintaining the total volume of its credit outstanding is the purchase of government securities. He, therefore, recommended that the conference authorize the executive committee of the conference, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of government securities. In making this recommendation, he pointed out that it was not the intention to purchase government securities immediately but rather to attempt to carry out the policy, first, through bill rates, second, through the reduction in discount rate, and, then, if necessary, to resort to the purchase of government securities."

Discussion:

"Governor Norris was of the opinion that the proposed policy might not accomplish any great amount of good; that the System was in a strong position; that there was little or no danger of speculation; that he saw no probability of any bad results from the policy; and that in those circumstances he was ready to participate in the policy and to contribute by recommending a reduction in the Philadelphia Bank rate to three per cent. His chief misgiving about the adoption of the policy was the danger of a slowness in the reversal of the policy when that might become necessary. This was a danger to which all the members of the conference referred and which Governor Meyer stated he did not believe would be existent in the present circumstances, especially in view of the fact that the country would look upon a reversal of the policy as an evidence that the turn had come in the business depression.

"Governor Young stated that they are even now following the New York reductions in bill rates and in the past have followed in the reduction in discount rates; that he believes it is important to have harmony in the System; and that if New York reduces its discount rate to 1 1/2 per cent, he will recommend the same rate in Boston. He believes that it is inadvisable to buy more government securities at the moment but that even so he would, of course, be willing to buy government securities at the present time from any member bank that needed accommodation in that fashion. He felt that while the program might be right or wrong, the only thing to do, in view of all the circumstances discussed by the conference, is to go through with it.

"Governor Fancher stated that the economic situation throughout the world has seriously changed in the past year and is perhaps more serious than ever; the gold flow is most important; and he said that he was willing to go along with any program designed to check it. He also agreed that the System can lend its efforts to make money so cheap as to put it to work. .....

"Governor Seay stated that he had no great degree of confidence that the proposed policy will accomplish anything very definite or that business recovery is dependent upon any further ease in credit. He intimated that it was possible that a further easing progfam might be construed as a move in the wrong direction and as a policy of desperation. He did feel, however, that any move that would force banks to reduce rates which they pay on deposits is a most important one, and that if the proposed program fails in accomplishing that, the program itself would fail. ....

"Governor Black stated that, in his opinion, the present situation is extreme and that it was important that we do something. ... He hopes and believes that the program recommended by Governor Harrison will be effective, at least in part; that it would tend to make the gold which we have more useful; and that it would tend to drive some short time money to work, which is what the situation now needs. ....

"Governor McDougal stated that the gold problem, as discussed by the conference, is an impressive one and should be corrected, if possible; that that is the big question before us. The banking situation is also an outstanding problem; and that while he thinks money rates are now cheap enough and does not see how cheaper rates will stimulate business, nevertheless, it may serve to move gold elsewhere. ... He was not in favor of buying governments at the moment but that if lower discount rates were established in the Eastern districts, Chicago would probably have to follow.

"Governor Martin said that there is no historical precedent for the present situation, and that it would, therefore, be difficult to predict the results of the proposed policy. He saw some objections to it but, on the whole, the majority of reasons were in favor of it. .....

"Governor Geery was somewhat at a loss to foresee the precise results of the proposed policy but was willing to give it a fair trial at this time and was willing to vote for it.

"Governor Talley stated that he still has confidence that gold will finally express itself. ..... In his judgment, there was some question whether it would be desirable to have the New York banks reduce their interest rates further; that it was more desirable, in his mind, for those banks to send money abroad into short commercial credits. While somewhat apprehensive about attempting the policy, he saw little ammunition left, and he was in favor of trying it.

"Deputy Governor Worthington said that while the Kansas City Bank has felt for some time that money rates have been too low and that there would be no revival in business until rates go up, nevertheless he sees no objection to the program ..... .

"Governor Calkins said that he agreed with the desirability of harmonious action in the System but questioned how harmonious it would be unless a program is agreed to without reluctance. He is somewhat skeptical of the proposed program because of the fact that the present situation was so lacking in precedents that it is not possible to compare it with the past. ..... The big question, in his mind, is whether we would be prepared to correct or reverse the policy if it proves to be wrong, but that San Francisco will be prepared to follow and participate in the program, even though not with the wholehearted acquiescence which he thinks so advisable.

"Governors Meyer and Harrison then said that they did not have any fixed certainty of the outcome of the procedure but that it was one in which we had little, if any, volition since it would be forced upon us by the present gold movement sooner or later, in any event."

Board action:

At a meeting of the Board on May 7 it was voted to approve the request of the Open Market Policy Conference made April 29 that the Executive Committee be authorized to purchase up to $100,000,000 of Government securities.

(11)

June 22, 1931 -- Meeting of the Executive Committee of the Open Market Policy Conference

Action recommended:

"It was voted to buy up to $50,000,000 of government securities with the understanding that there would be further conference by telephone or otherwise between members of the committee before any purchases were made beyond that amount.

"Governor Young asked to be recorded as voting in the negative, and Governor Norris did not vote."

Reasons given for action:

"Governor Harrison outlined developments in recent weeks in the international markets, and particularly in connection with the assistance required by the Austrian Credit Anstalt, and the further succeeding developments in Hungary and in Germany, and indicated that on Friday the Reichsbank had sold us over $100,000,000 in gold, and its total losses of gold and foreign exchange had been approximately $250,000,000. It had begun a policy of credit rationing at home. As a result largely of the gold from Germany this country had gained $112,000,000 of gold since June 1, and the total net gain since January 1 amounted to $298,000,000.

" ..... Since the April meeting incoming gold may be considered to have been partly absorbed by currency withdrawals in connection with bank difficulties. If the influence of these currency withdrawals could be eliminated Federal reserve earning assets would show a substantial reduction. In other words, the gold has been to a degree sterilized, and the aim of the April meeting of maintaining earning assets and putting new gold to work has not been fully achieved.

"Governor Young objected at this point that he did not agree with the conclusions of the April conference with respect to the sterilization of gold.

"Governor Harrison pointed out that the other aim of the April conference was to reduce short money rates and thus encourage the shifting of funds to employment in longer use. Partly as a consequence of the action taken there had been large and widespread reductions of rates paid by banks on deposits, and in short time money rates generally.

"He further stated that the events of the past two weeks were in some ways the most critical which the world has passed through since the war, that there had been a threat of a general moratorium and a possible breakdown of capitalism in Europe. In the meantime developments in South America had indicated the danger of a moratorium in certain countries there. In these circumstances it seemed desirable to take every possible measure available to the Federal Reserve System for improving the situation. He could see no risk in buying governments at this time, but considerable advantage. It was a particularly good time, because the improvement of psychology and the lift in the commodity markets and the security markets following the announcement of the administration's position as to reparations provided an impetus toward revival which, with proper encouragement, might now bring the turning of the tide.

"As far as the bill holdings of the system were concerned Governor Harrison stated that it would probably be somewhat easier to maintain these holdings because of the fact that the Bank of France was allowing all its bills to mature. Since these holdings constituted something like 25 per cent of the total bills outstanding in the American market, the release of these bills would provide a more ample supply, part of which would presumably come to the reserve bank. The Bank of France intended, however, to increase its balance at the reserve banks as its bills matured, an action which would be a tightening factor in the money market. It might be desirable in the near future to make some reduction in bill rates since technically bill rates were becoming out of line with other short term money rates. In fact the directors of the New York Bank had already requested from the Federal Reserve Board a lower minimum buying rate on bills, though there was no present intention of reducing the actual buying rate.

"Governor Meyer reported ... that from $350,000,000 to $375,000,000 of currency was now hoarded throughout the country as a result of banking disturbances since last autumn. This represented an additional demand for Federal reserve credit which tended to offset the effects of gold imports under the normal working of the gold standard."

<u>Discussion</u>:

"Governor Norris asked whether the real difficulty at present was not the rates for money but lack of demand for credit from high grade borrowers while lenders were timid and hesitant with respect to any other type of borrower.

"Governor Harrison suggested that the pressure of excess reserves sooner or later tends to overcome timidity. Under the traditional gold standard the piling up of funds in any country sooner or later operates toward an expansion of credit which in turn is an influence towards raising the price level. He hoped that the purchase of governments might first avoid sterilizing gold, and might second be a stimulus operating with other favorable recent events towards giving an additional lift toward business recovery.

"Governor Norris raised the question whether the system would not be criticized for taking a step to make money still easier when it was already very easy. ...

"Governor Meyer suggested that other critics would say that by inaction we were preventing the normal influence of gold.

"Governor Black commented that the action taken at the April 29 meeting at Washington was affirmative, in favor of positive action which was to continue until it accomplished its results. ... The President, by his announcement, had taken a constructive step which should be backed up to the limit, and Governor Black believed that the purchase of governments would give this impression and have this effect.

"Governor Meyer stated that the Federal Reserve Board would be sympathetic to the purchase of Government securities, would have some preference for a larger program of purchases than $50,000,000, and that the Board would regard this program as simply discounting in advance the easing effect of the return of hoarded currency when the period of apprehension was over.

"Governor Young discussed the question of gold sterilization and indicated that he believed that sterilization had been and was natural and inevitable under the operation of the Federal Reserve System; that the only way sterilization could be stopped was to have continuously an excess of credit, but that any such excess never lasts but is rather quickly absorbed through a reduction in Federal reserve credit. It is, therefore, impossible to prevent sterilization without adopting the Macauley policy of buying an exceedingly large volume of government securities. He agreed that something should be done to support the action of the President, but did not believe that the purchase of $50,000,000 of Government securities would accomplish this purpose."

(17)

August 11, 1931 -- Meeting of the Open Market Policy Conference

Action recommended:

"It is the sense of the Conference that, subject to the approval of the Federal Reserve Board, the Executive Committee be authorized to purchase for account of such Federal reserve banks as desire to participate, up to $120,000,000 of Government securities if and when it becomes necessary or advisable to do so, or if necessary or advisable to sell up to a similar amount. It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose.

"All governors voted in favor of the resolution, as amended, except Governor Young."

Reasons given for action:

"Governor Harrison .. reviewed the recent developments abroad, and particularly in those countries where credits had been granted by the Federal reserve banks, discussing in detail the situation in Austria, Hungary, and Germany."

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"Between July 23 and August 8, 1931, sterling exchange was purchased to the amount of approximately £1,650,000 in support of that exchange. Prior to August 8 £900,000 of the above sum were invested in sterling bills by the Bank of England, for our account. On August 8 the £900,000 were transferred to apply on the Bank of England credit of $125,000,000 and the remaining £750,000, which were delivered to the Bank of England on August 8, were invested in bills and applied directly to the credit.

"Governor Harrison reviewed the background of these credits and the negotiations which had led up to them, as outlined in his letter of July 9, 1931, to the Governors of all Federal reserve banks. The continued lack of confidence and the state of fear and unrest which exist all over the world and the continued decline in commodity prices had brought about a condition approaching abnkruptcy in many foreign countries and in certain sections of our own country, due to the inability of these countries and sections to meet their fixed charges. Under these conditions one of two things must happen: either commodity prices must go up, or debt structures must be reorganized, involving defaults or postponements in many cases. While bank credits may serve to patch up various situations temporarily, they cannot correct the basic difficulties. The only possible additional step which now appears open to the Federal Reserve System as a means for exerting some favorable influence upon the situation is the purchase of Government securities. The only question is whether conditions are now such as to make such a step practicable or reasonably effective.

Governor Harrison stated his belief that economic, social, and political conditions throughout the world were so very serious, the prospects for the winter indicated such severe unemployment and distress, and the threat of political and social upheavals in various parts of the world was so great that the Federal Reserve System should certainly be prepared to take any helpful steps within its power if and as soon as conditions indicated reasonable prospects of their success."

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"With regard to the immediate situation in New York, Governor Harrison reported that the New York banks for two months past had been holding currently excess reserves of from $60,000,000 to $80,000,000, but that in the past few days, due to currency withdrawals and the action of the Bank of France in allowing its Treasury Bills and bankers' bills to run off, this excess had been wiped out and the banks had been obliged to borrow at the reserve bank from $40,000,000 to $80,000,000. In view of this sudden and unusual change and to avoid a disturbance to the money situation, the New York reserve bank had made purchases on August 10 and 11, for its own account, or $50,000,000 of Government securities, any part of which it will be glad to give to any bank that wishes to participate. This action was not taken with a view to creating excess reserves but to supply enough funds to take care of the unusual withdrawals. The Bank of France has now a $170,000,000 free balance with the reserve banks and holds about $40,000,000 more of bills maturing within the next few weeks."

Discussion:

" ..... Governor Harrison did not advocate immediate purchases of securities because it did not appear that the attitude of the banks and investors was such that funds thus made available would be put to work, but he believed the system should be prepared to make substantial purchases as soon as there was some prospect that the purchases might be effective."

Considerable discussion followed about the inability of the majority of the banks to participate in further purchases, due to lack of gold cover. Governor Harrison stated that the amount of free gold in the system was about $750,000,000, which could be increased to a billion dollars by withdrawals from the agents, and pointed out that the question to decide was not whether individual banks could, or could not, participate, but to try to agree on a system policy which would be helpful.

"Governor Meyer reviewed the various facts in the present situation and stated that in his opinion the situation was one which called for some action by the Federal Reserve System, and he hoped that the Conference would give serious consideration to the matter of buying securities. Furthermore, it was his opinion that such additional action could be taken without any possibility of really weakening the System."

At Governor Calkins suggestion members of the Conference gave the attitude of their respective boards of directors in regard to the purchase of securities.

After adjournment the Conference met with the Federal Reserve Board and the following discussion ensued:

"In discussing the reasons why the members of the Conference were not in favor of purchasing large amounts of Government securities immediately, Governor Harrison pointed out that at present the effect of purchases would probably be limited to the piling up of excess reserves in member banks which would not be employed. The natural outlet for such excess reserves is in investments and if action were taken at the right time it might result in pressure upon the banks for the use of surplus funds in the purchase of bonds, mortgages, etc. One difficulty at the present time is that the most prime investments are selling on a very low yield basis, while secondary bonds consist largely of railroad issues, of which a considerable proportion may in a short time become ineligible for investment by savings banks, insurance companies, and trust funds, due to the provisions of various state laws. In addition the bond market has been uncertain because of pressure on the market, due to forced liquidation of bond portfolios of closed banks. The conference felt, however, that the existing situation was so critical that the System should be prepared to act quickly if and when conditions are changed to a point which might make it appear that an operation in Government securities would be effective in encouraging or facilitating business recovery."

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"Governor Meyer and other members of the Board expressed disappointment at the action taken by the Committee in that it limited possible purchases to an ineffective amount. They also indicated some disappointment that the procedure followed by the meeting did not give the members of the Board an adequate opportunity for discussion with the members of the Conference before final action was taken by the Conference.

"Governor Harrison stated that the present procedure was not satisfactory to him either but that it was precisely in accordance with the procedure followed ever since the Open Market Committee had been changed to the Open Market Policy Conference, including representatives of all of the Federal reserve banks."

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"Governor Young stated that he would rather see the portfolios of the Federal Reserve System composed of bills and discounts, and regretted to see two important functions nullified by operations in Government securities."

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"Governor Meyer suggested as a matter or procedure that the members of the Conference should come to the meeting without instructions by their boards of directors, but prepared for a free discussion with the members of the Board. He suggested that there should be another meeting held at an early date, to be attended by the Board, for a further discussion of these questions."

(13)

October 26, 1931 -- Meeting of the Executive Committee of the Open Market Policy Conference.

Action recommended:

"It was moved and carried that while for the moment there is no occasion for a reduction in System holdings of government securities, that by reason of the views expressed by a number of governors favorable to a sale of government securities, and because of the possibility of changes in the credit situation which might make sales desirable, the committee ask the Federal Reserve Board to give the executive committee the same leeway with respect to sales of government securities as it now possesses with respect to purchases as recommended by the resolution of the Open Market Bolicy Conference on August 11."

Reasons given for action:

"Governor Harrison reviewed the considerations affecting open market policy, indicating, first, that the free gold position of the System was not a consideration at this time first because there is now, even after a loss of over $700,000,000 of gold, over $800,000,000 free gold in the System, practically as large as before the outward gold movement started and second because a sale of government securities would not in fact really strengthen the System's gold position. Its only effect would be to provide additional collateral for Federal reserve notes, whereas there is an ample amount of collateral either now on hand or in sight so that a shortage of collateral would not be a limiting factor on the amount of gold which could be exported or the amount of Federal reserve notes which could be issued. At the present time only $300,000,000 of Federal reserve notes out of $2,700,000,000 outstanding are not collateraled to 60% of value by eligible paper.

"The most important question which the System faces at present is the problem of bank failures and hoarding of currency. Failures had been increasing at a rapid rate and are exercising a terrific pressure on the credit situation. Every action of the System should be considered in the light of its possible effect on these failures and on the willingness of banks to help out their correspondents in time of difficulty. A decrease in the System's holdings of government securities might affect the situation adversely, first, by its psychological influence as indicating a policy of pressure, and second, as tending to increase the amount of member bank discounts and so making them somewhat less willing to lend freely to help banks actually in need."

(1+

November 30, 1931 -- Meeting of the Open Market Policy Conference

Action recommended and reasons given for action:

"The Conference reviewed a preliminary memorandum submitted by the Chairman. They discussed business banking and credit conditions both here and abroad and considered in particular the effects upon the American banking and credit structure of the recent huge withdrawals of gold and currency and possible further withdrawals of currency for holiday purposes or for hoarding. They further considered the heavy maturities of bills in the System portfolio before the end of the year. While the Conference was of the opinion that there is no occasion for any immediate purchase of government securities, nevertheless, they voted that in view of all circumstances and in order to be prepared if and when occasion arises, the Executive Committee be authorized in its discretion to buy up to $200,000,000 of government securities before the end of the year. It was the sense of the conference that the committee should also be authorized in their discretion to sell any securities so bought after the turn of the year if conditions then permit. The conference felt that there should be another meeting of the conference early in January to consider the System's general operations and policies in the light of conditions as they then exist.

"Before final action on this resolution, Governor Harrison discussed at some length the international situation calling attention particularly to the change in conditions in various countries of the world since the abandonment of the gold standard by England. He emphasized the steps which have been taken in recent weeks by various countries to increase tariffs and to impose exchange restrictions which act as serious deterrents to international trade. He indicated that it was difficult to see how many of these countries can determine upon their future monetary policy until England finally decides upon a course of stabilization, but that it is not likely in his opinion that England will attempt to stabilize its currency until some definite action is taken about reparations and intertovernmental debts, and until they are in a position between to determine their own trade balance and price levels which will be affected by the tariff which the government has now enacted."

15

January 11 and 12, 1932 -- Meeting of the Open Market Policy Conference

Action recommended:

" ..... The Executive Committee be authorized if and when desirable to purchase for the System account not to exceed $200,000,000 of government securities, such purchases to be made only after the approval of the Executive Committee at a meeting to be called for the purpose of considering the occasion or need therefor."

This resolution was passed with Governors Seay and McDougal, and Deputy Governor Day voting in the negative.

Reasons given for action:

"The Conference has considered the preliminary memorandum and discussed at length the current business and banking situation. It gave particular attention to the increase in bank failures and the pressure upon the business and price structure of the country resulting from or coincident with the huge deflation in bank credit during the past year, the contraction of bank loans and investments during the last quarter of 1931 being at the rate of about 20 per cent per annum. The Conference believes that this deflation cannot continue without most serious damage to the business and financial structure of the country. While the Conference is of the opinion that the proposed Reconstruction Finance Corporation will be of material help in checking the failure of sound banks and in thus tending to relax further unnecessary pressure for liquidation, and that while the further acquisition of bills by the Federal reserve banks may be encouraged by Federal reserve bank rate adjustments, nevertheless because of the seriousness of the general situation and the importance of relieving the drastic pressure on the credit structure now inspired largely by fear of further liquidation, the System should be prepared, if necessary, to supplement these other steps by the purchase of government securities."

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"Governor Harrison pointed out that the deflation of bank credit in the United States had amounted to more than $6,000,000,000 in two years in addition to a decrease of $6,000,000,000 in brokers' loans by others than banks. In the past three months the deflation had become still more rapid and was at the rate of 20 per cent per annum. A continuation of this deflation might be expected to lead to still further serious price declines. There had been some interruption of bank failures in November following the inauguration of the National Credit Corporation but lately the number of failures had again increased and currency withdrawals for hoarding appeared to have begun again to some extent.

"The gold situation, he indicated, was fairly quiet but likely to become active again if bank failures continued.

"The question now was what could be done to prevent a further deflation and to bring about some improvement in conditions. With developments already begun or in prospect there seemed some possibility of getting an upward movement started by combined effort. Recent important developments included an improvement in the condition of the bond market, prospects for a readjustment of wage rates for railroad employes, and prospects for the passage of a bill providing for the Reconstruction Finance Corporation."

Discussion:

"Governor Harrison suggested that the following appeared to be the program for consideration to stop deflation and encourage some credit increase:

(1) Passage of the Reconstruction Finance Corporation bill.

(2) Organized support of the bond market predicated upon railroad wage cuts.

(3) Federal reserve and member bank cooperation with the Treasury program.

(4) Buying bills when possible.

(5) Reduction in discount rates.

(6) Buying of Governments, if necessary, facilitated by an alleviation of the free gold position."

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"Governor Harrison referred to the Treasury program and indicated that the Treasury would require about one and a half billion dollars of new money between now and June 30 and that under present conditions it would be difficult for the Treasury to borrow this amount without a serious effect on the government security market and the general bond market. He stated that he believed a successful Treasury sale of these securities would require:

(1) General strength in the bond market.

(2) Direct discussions with the member banks as to the importance of their cooperating.

(3) Discount rate adjustments to enable banks to borrow at a profit.

(4) Probably some purchases of Government securities by the reserve banks.

"Any program to be successful must also include a definite policy by the administration as to the total amount of borrowing to be undertaken and also a definite policy as to balancing the budget after June 30, 1932.

"Governor Harrison believed that through successful issues of government securities, purchased largely by the banks aided by Federal reserve cooperation, it might be possible to stop the deflation of credit."

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" .... In response to questions Mr. Mills stated:

(1) That the administration proposed that the government budget should be balanced after June 30, next,

(2) That the administration program called for sales of approximately $1,500,000,000 of additional government securities before June 30, 1932,

(3) That it seemed likely that new issues would take the form of short term issues rather than bonds."

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"Governor Meyer stated that he believed in the present situation the Reserve System should be prepared to use all of its powers if and when necessary.

"Governor Black asked whether the members of the Federal Reserve Board were in accord with the suggestion for lower discount rates, and Governor Meyer replied that the matter had received no formal attention in meetings of the Board but that the members of the Board with whom he had discussed the matter were in favor of lower rates for the purpose of facilitating the general program. He also suggested that any lower rates which were established should not, in fairness to the member banks cooperating with the program, be withdrawn too quickly.

"Governor Black suggested that definite action should be taken with regard to the $42,000,000 of government securities purchased for System Account at the year-end. A motion to sell these $42,000,000 of securities was made by Governor McDougal but did not receive a second."

(16)

February 24 and 25, 1932 -- Meeting of the Open Market Policy Conference

Action recommended:

"It is moved that it is the sense of the conference that, subject to the approval of the Federal Reserve Board, the Executive Committee shall be authorized to purchase up to $250,000,000 of government securities for System account at the approximate rate of $25,000,000 per week. It is understood that purchases under this program shall be made after a meeting of the Executive Committee called for the purpose of considering such purchases and that the program shall be subject to review by the Conference at any time on call of the Conference or the Federal Reserve Board."

This resolution was adopted with Governors Young and McDougal voting in the negative.

Reasons given for action:

"Governor Harrison reviewed the action of the conference in January authorizing the executive committee, if the occasion arose, to purchase up to $200,000,000 of government securities. He indicated that action had not been taken under that authorization, partly because various elements in the domestic program have developed more slowly than had been participated, partly because of gold withdrawals to Europe, and partly because of the limited amount of free gold held by the System. These conditions were all being modified in a favorable direction at the present time, and the question might now be raised upon the merits whether it might be well to proceed with the program as originally planned. The important reason for considering action at this time was the continued rapid deflation of bank credit which was a seriously depressing influence on the whole business structure and the price level.

"Governor Meyer added that the question of buying government securities also related itself to hoarding; that it seemed unnecessary for the banking position to be subjected to severe strain because of the funds withdrawn for hoarding, when the Reserve System under the new bill has the necessary power by the purchase of government securities to relieve the banks from some of their indebtedness to the reserve banks. He said he did not believe that buying governments alone would control the situation, but the operations of various favorable factors, including the Reconstruction Finance Corporation, would be aided by a gradual purchase of government securities which would help the banks to reduce their bills payable, and so lighten the pressure on the credit situation."

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"Governor Harrison further pointed out that the country's gold stock had been reduced by about $100,000,000 in the first two months of the year, with no offsetting gains to the market, and that further gold losses at the rate of about $50,000,000 a month were to be anticipated. The purchase of government securities would have the effect of offsetting this gold loss and preventing it from causing an increase in rediscounts."

Discussion:

"Governor Meyer pointed out that the Reconstruction Finance Corporation was making loans which it was hoped would have a favorable psychological effect; that at the present time the public state of mind was a major factor; and that no single sentimental factor was so important in the minds of the public as the purchase of government securities by the Federal Reserve System. Various factors in the situation look hopeful, and it seems a prudent time to act.

"Governor Seay said that while he had opposed purchases at the last previous conference he now believed the time had come to lay down a barrage all along the line, that there was now a better justification for purchases of governments than at any time in eighteen months.

"Governor McDougal said that he was not clear what good would come from investing in government securities now, and that, with the doors open as the new bill provides, the reserve banks are liable to be called upon for additional amounts of funds which would have the same effects on the System's reserves as buying government securities. He would be opposed to purchases at least until after there was opportunity to see what pressure arises from the new legislation. On general principles he preferred to see the banks borrowing to secure funds.

"Dr. Miller stated that he believed there was never a safer time to operate boldly than at present. He indicated that he would approve purchases on an even larger scale than the amounts being discussed.

"There ensued a general discussion of the desirability or discount rate changes in addition to security purchases, and the general opinion was expressed that rate changes in the interior districts were not as important as they had appeared to be in January, in view of the hope and anticipation that a large part of the new issues of government securities would probably be taken by eastern centers, with the result of drawing money from the money market to other parts of the country.

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(17)

April 5, 1932 — Meeting of the Executive Committee of the Open Market Policy Conference.

Action recommended:

" ... It was moved and carried that purchases of government securities be continued at a rate of $25,000,000 a week as authorized by the program adopted at the meeting of the Open Market Policy Conference on February 24.

"This motion was carried unanimously. ..... While .. two of the members of the committee were in general opposed to further purchases of government securities it appeared that purchases made up to this time had been followed by about as satisfactory results on the banking position as could be anticipated, and there seemed to be no few factor in the situation which would justify a discontinuance of the program adopted by the full conference."

Reasons given for action:

"Governor Harrison reviewed the current economic situation, the continued decline in prices, the increase in the pressure of debts, the increase in bankruptcies, and the threat of radical action in Congress. He reviewed in particular conversations with Senator Thomas with regard to a proposed bill for a soldier's bonus financed by the Federal reserve banks. He reported also recent conversations with member banks indicating that some change in lending policy was already taking place on the basis of funds made available through government purchases and the return of currency."

18

April 12, 1932 -- Meeting of the Joint Conference of the Federal Reserve Board and the Open Market Policy Conference.

Action recommended:

"That subject to approval of the Federal Reserve Board the Executive Committee be authorized to purchase up to $500,000,000 of government securities in addition to the unexpired authority granted at the meeting of the Open Market Policy Conference on February 24, and that these purchases, at least in the initial weeks, should be at a rate as rapid as may be practicable and if possible should amount to 100 million in the current statement week."

"The Executive Committee voted that the program of purchasing governments should start immediately, and that in accordance with the resolution orders should be placed at once for $75,000,000 of government securities for delivery April 13, to bring the purchases in that statement week to a total of $100,000,000.

Reasons given for action:

"Governor Meyer reviewed the open market program which had been pursued since February 24, the return of currency from circulation, progress in the arrest of bank failures, and the lending program of the Reconstruction Corporation. He reviewed also the changes in business and the credit situation, indicating that the decline in credit volume and the decline in business and prices had not stopped. He called attention, merely as a matter of information, to the fact that a resolution had been offered in the Senate asking the Federal Reserve Board to state its program for dealing with the situation and to indicate any legislation necessary. Consideration of this resolution had been postponed. He stated that the Federal Reserve Board felt that the Reserve System could now undertake to do more toward aiding in the recovery than it had yet done, and that he believed the time had come when the System might be expected to use its powers more fully in an effort to stop the credit decline."

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"Governor Young questioned whether purchases of governments which piled up reserves in the centers would result in the distribution of these funds to other parts of the country. He was skeptical of getting the cooperation of the banks without which success appeared difficult, and was apprehensive that a program of this sort would develop the animosity of many bankers, and was apprehensive also that an extensive program of purchases of government securities would impair the confidence of the public in the reserve banks. He cited the experience of 1931 as an indication of the futility of government purchases.

"Governor Meyer responded that the difficulty last summer was that confidence was impaired by the German collapse and by the British departure from the gold basis; so that any program adopted was negatived. He believed that today the country was in a more favorable position to take advantage of funds made available. He believed that a strong program would inspire more confidence than distrust, and did not believe that there would be serious opposition by banks.

"Governor Harrison stated that he believed that in the present situation the banks were much more interested in avoiding possible losses than in augmenting their current income, and that their attitude had changed gradually since last year in the face of the shrinkage in values.

"Governor Meyer stated that he believed a strong program would quicken the currency return and might make it unnecessary to complete the program. He also indicated the great value in a unanimous program in which the entire reserve system took part.

"Secretary Mills who had entered the meeting after it had begun stated that he believed a great duty now rested on the Federal Reserve System; that Congress and the Administration had done all they could in developing remedial action, and yet deterioration was taking place steadily. For a great central banking system to stand by with a 70% gold reserve without taking active steps in such a situation was almost inconceivable and almost unforgivable. The resources of the System should be put to work on a scale commensurate with the existing emergency."

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"Governor Harrison stated that he believed the only practical program was a dramatic purchase of government securities. He believed that the member banks were ready to cooperate in such a program. The uncertainty as to the budget and bonus legislation had constituted obstacles to inaugurating such a program, but he believed that the outlook in these directions was hopeful, and that it would not be possible or necessary to wait until these two questions were completely solved.

"Governor Calkins raised the question whether a policy of this sort would be followed by large foreign withdrawals of funds, and Governor Harrison replied that there might be some withdrawals but he did not believe these would be sufficient to prove embarrassing."

<u>Discussion</u>:

"Governor Harrison reported that the governors felt that the program should be widely participated in, which would involve an early exercise of section 3 of the Glass-Steagall bill. The governors believed that a general participation by the reserve banks would assist psychologically in making the purchases effective.

"Governor Meyer suggested that whatever danger there was in the program lay in the possible interpretation that it was inflationary. From this point of view the danger might be lessened if the first large purchases of bonds did not take place simultaneously with the first use of Section 3 of the Glass-Steagall bill. While the use of that provision would be necessary before long the psychological effect might be better if the two events were separated by a reasonable period of time."

Board action:
"Governor Meyer reported that the Federal Reserve Board had approved the resolution adopted by the conference."

(19

May 17, 1932 -- Meeting of the Joint Conference of the Federal Reserve Board and the Open Market Policy Conference.

Action recommended:

"The following resolution was moved and carried, Governors McDougal and Young voting in the negative:

"After discussion of credit, banking and business conditions and the effects of the System's Open Market Operations on those conditions in recent weeks, it was voted, subject to the approval of the Federal Reserve Board, to authorize the Executive Committee of the Open Market Policy Conference to continue the purchase of Government securities for System account as may seem advisable from week to week but not to exceed an aggregate of $500,000,000 without another meeting of the Open Market Policy Conference."

At a meeting of the Executive Committee following the joint conference "it was voted that approximately $80,000,000 of government securities should be purchased in the current statement week, if available, and it was agreed that the amount of purchases in following weeks should be determined from time to time by telephone."

Reasons given for action:

"Governor Meyer discussed briefly the apparent results of the program of purchases agreed upon at the meeting of April 12 and indicated that the effectiveness of the operation was impaired somewhat by disturbances which had taken place, including passage by the House of the Goldsborough Bill, which had occasioned an unfavorable reaction in Europe and some gold withdrawals."

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"Governor Harrison said that while in the public mind the success of the program had not been demonstrated because the downward movement in prices and business had not been stopped, the results were important and included a reduction of debt by the member banks at the reserve banks, and a change in the bank attitude about loans and investments. Generally speaking the bankers had received the program favorably and the decline in bank credit appeared to have been checked. The principal New York City banks had begun buying bonds, although restrained by fear of adverse legislation. Their excess of reserves had only been substantial for three or four weeks. He believed purchases should be continued.

Board action:

The Board addressed a letter to Governor Harrison as follows:

" ..... The Federal Reserve Board has considered and approved the action taken by the Open Market Policy Conference at its meeting today in voting, subject to the approval of the Federal Reserve Board, to authorize the Executive Committee of the Conference 'to continue the purchase of Government securities for System Account as may seem advisable from week to week but not to exceed an aggregate of $500,000,000 without another meeting of the Open Market Policy Conference.'"

(20)

June 16, 1932 -- Meeting of the Executive Committee of the Open Market Policy Conference.

Action recommended:

"The following proposal was agreed to unanimously by the members of the committee, Governor Young pointing out that he was voting as a member of the committee to administer the policy determined by the Open Market Policy Conference rather than as a representative of his own district opinion:

"(1) That until further notice sufficient purchases of government securities should be made to keep excess reserves of member banks at a figure between $250,000,000 and $300,000,000.

"(2) That the system should continue to show an increase from week to week in total holdings of government securities in order to avoid the creation of a feeling that the policy of the system had been changed, but that such increases should be in amounts as small as might be, to preserve these excess reserves, and take care of special conditions arising from week to week.

"(3) That in the coming week it appeared that this purpose might be accomplished by smaller purchases, but at the end of June the reserve banks should be prepared to do whatever was necessary to meet the situation."

Reasons given for action:

"The question was then raised as to the extent of future purchases of government securities, first, as to whether they should be continued, and second, as to what should be the objective. Governor Harrison pointed out the difficulty of deciding on the objective each week by telephone, and suggested instead that it might be better to endeavor to maintain the excess reserves of member banks at a figure somewhere between $250,000,000 and $300,000,000 until there was some expansion of credit which would make it desirable to reconsider the program. With the gold export movement reduced, it would probably be possible to maintain substantial excess reserves with smaller purchases than in the past, though there were likely to be considerable swings from week to week.

Letter from Governor Harrison to all governors.

38A

July 5, 1932

CONFIDENTIAL

Dear Governor :

In view of the changes in the System position resulting from gold losses, recent bank disturbances, and mid-year events, it seems desirable to review recent open market operations in their relation to the present position of the System and the general banking situation.

Since February 24 the government security holdings of the System have been increased by $1,060,000,000, including some purchases by the Federal Reserve Bank of Chicago for its own account during last week. The disposition of the funds put into the market through these purchases may be tabulated as follows:

Disposition of Funds Made Available by Security Purchases

(In millions of dollars)

Net loss of gold through exports and earmarking	430
Repayment of discounts of Federal reserve banks	365
Reduction in Federal reserve bill holdings	69
Increase in money in circulation	57
Increase in member bank reserve balances	156
Total	1,077

The difference between these figures and the figures for government purchases is made up by a number of miscellaneous items.

This table indicates that the funds made available by security purchases were largely absorbed by heavy losses of gold and by a reduction in Federal reserve discounts and bills. Only a relatively small remaining amount has been made available to form excess member bank reserves which might support an increase in member bank credit.

During this period the excess gold reserves of the system have been reduced from $1,392,000,000 to $942,000,000, that is a decline of $450,000,000 and the combined reserve ratio of the System has declined from 68 per cent to 57 per cent. It is interesting to observe, however, that only a very small part of this change in the System's gold position and the reserve ratio is attributable to purchases of government securities. Most of it has been due to the repatriation of foreign central bank dollar funds, which very probably would have occurred regardless of the policy of the System. The country's gold stock has declined as shown in the above table $430,000,000, or only $20,000,000 less than the decline in the excess gold reserve of the Federal reserve banks. Had there been no increase in the System government holdings this gold loss would necessarily have been accompanied by considerable increase in Federal reserve bank discounts over and above the discounts held at the time security purchases were commenced. In other words member bank borrowings in the Reserve banks instead of declining from $835,000,000 to $470,000,000, would most surely have been increased to well over $1,000,000,000, in addition to some increase in acceptances, and the drastic credit deflation in process in February inevitably would have been accelerated as a consequence.

Thus we see that the open market program was not only effective in preventing the increase in discounts which would have followed such large gold exports, but on the contrary was responsible for a substantial reduction of discounts in spite of such gold losses. Most of the increase in reserve funds resulting from security purchases has been required to meet demands for reserve credit which had to be met in some form. Whether that reserve credit was provided by purchases of government securities, by rediscounts, or by bill purchases, the effect upon the gold position and the reserve ratio would be precisely the same. The reserve ratio is now less than 2% under what it would have been had no securities been bought, and that 2% difference is accounted for by the fact that our open market operations have increased reserve credit about $125,000,000 in excess of the actual demand, and member banks hold approximately this amount of excess reserve deposits. The required reserve against these excess deposits accounts for the difference in the reserve ratio. These excess reserves are, of course, available to meet any demand for currency or gold which may arise or to support an expansion of member bank credit about ten times the amount of the excess.

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Apart from the effect of open market operations on the technical position of the System it is important briefly to summarize some of the more general results of the System's purchases of securities:

(1) The very large repatriation of foreign central bank funds has been accomplished without any strain on the position of member banks, and thus one important obstacle to a more normal credit position has been removed.

(2) The pressure for liquidation of bank credit which usually results from the indebtedness of member banks has been materially lightened by a reduction in their total borrowings from more than $800,000,000 to less than $500,000,000.

(3) The decline in member bank deposits has been checked, and the liquidation of bank credit which had been proceeding at an alarming rate has been substantially retarded.

The alternative to purchases of government securities would have been a large increase in member bank indebtedness which would have exerted still further pressure towards liquidation, the continuance of which at the rate it was proceeding in February might well have been disastrous.

With the gold outflow apparently checked except for the export of some $20,000,000 during the next three weeks, about which we shall write you, the only factors which appear likely to influence the System's reserve position in the near future are changes in the currency demand, and changes in member bank reserve balances. If there should be a further increase in the currency demand the form in which the Federal reserve credit is supplied will make no difference in the effect on the System's reserve position.

Member bank reserves have recently fallen short of the 250 to 300 million of excess which it was proposed to maintain, as pointed out in the minutes of the last meeting of the executive committee. In the absence of a return flow of the currency that has recently gone out, it would require the purchase of about $125,000,000 more Government securities to restore member bank reserves to that level. Even such an amount would reduce the reserve ratio of the System by only about 1 1/2 points, from alittle over 57 per cent to slightly under 56 per cent. If excess member bank reserves should now be restored to that basis it seems likely that they will for the first time have an opportunity to exert their full force unless or to the extent that gold exports or currency hoarding should revive. In any event there is now more reason to expect that when excess reserves are restored they can be maintained until bank credit begins to expand--the real objective of the policy which the System inaugurated in the spring.

While the recent experience shows that the purchases of government securities do not adversely influence the position of the reserve banks as a whole, they may affect the position of individual reserve banks, and the present situation in which a number of the reserve banks have percentages of about 50 per cent whereas others have considerably higher percentages, clearly requires reconsideration of the allotment of securities as a necessary accompaniment of a further program of security purchases. We have already received a number of comments on the letter and tables mailed to all the reserve banks on June 24, and shall write you further when more are received.

Very truly yours,

George L. Harrison
Governor

(2)

July 14, 1932 -- Meeting of the Open Market Policy Conference

Action recommended:

" ... The following motion was carried by a vote of 9 to 3, Governors Young, Seay, and McDougal voting in the negative:

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

Reasons given for action:

"Governor Harrison referred to his letter of July 5 to members of the conference which contained an analysis of the disposition of the funds made available through open market operations. Thus far these funds have been used largely defensively, to meet gold exports and to repay rediscounts, but there now appeared to be a much better opportunity to achieve the objective of the program. In view of the stoppage of the gold export movement it now appeared to be possible to maintain surplus reserves at the cost of relatively small further purchases of governments, assuming bank failures and currency hoarding can be kept in check. Governor Harrison suggested a program consisting of three points:

(1) To prevent bank failures,

(2) To continue to maintain excess reserves of $200,000,000 to $250,000,000 until they are used as a basis for additional credit,

(3) To coordinate the action of the banking and industrial committees in different districts to promote the use of credit.

Discussion:

"With reference to the system open market policy Governor Meyer indicated that while business had not undergone any revolutionary revival everything had been achieved by the open market policy which there was a right to expect in view of all the circumstances. He suggested that in determining future policy it was important to consider that the public effect of any sudden discontinuance of the policy which had been pursued would be unfortunate, and also that in future policy every effort should be made to secure an effective united system policy. He pointed out that there existed a trend in Congress toward giving the System more concentration, and that the open market program offered a test of the capacity of the System to function effectively in its present form.

Board action:

Approval to the action of the Open Market Policy Conference was given by the Federal Reserve Board in a letter dated July 20, 1932.

(22)

November 15, 1932 -- Meeting of the Open Market Policy Conference

Action recommended:

"Governor Norris made the following motion which was carried unanimously:

> 'That it is the consensus of the Conference that no change should be made at this time in the amount of the system holdings of government securities, and that there should be another meeting of the Open Market Policy Conference during the first week in January to consider the system's policy in the light of conditions as they exist at that time.'"

Reasons given for action:

" ..... Governor Harrison stated that the net influence of the various forces affecting the excess reserve position of member banks in the next few weeks very probably would be in the direction of a reduction of those excess reserves. The gold inflow has lessened somewhat in the past several weeks, the rate of return of currency from hoarding has slackened and we are now facing the season when currency circulation might be expected to expand for holiday purposes. A different set of facts will exist after the turn of the year.

"All of the members of the Conference were of the opinion that there is no occasion to buy more securities at the present time."

(23)

January 4, 1933 -- Meeting of the Open Market Policy Conference

Action recommended:

"The ... resolution was .... passed by unanimous vote in the following form:

"It is the sense of the Open Market Policy Conference that there should be no change in the System's policy intended to maintain a substantial amount of excess member bank reserves inasmuch as the continuance of excess reserves in substantial amounts is desirable in present conditions. In view of the return flow of currency during January and Prospective gold movements the amount of excess reserves may rise considerably above the present level which is deemed appropriate under present conditions.

"BE IT RESOLVED, THEREFORE, That, pending another meeting of the Conference, the Executive Committee be given authority (a) to reduce the system's holdings of short term Treasury bills in order to offset such amount of the return flow of currency as may seem desirable, provided such action does not result in any substantial reduction in existing excess reserves and (b) if necessary, to purchase Government securities in sufficient amounts to prevent member bank excess reserves falling below the present general level pending another meeting of the Conference.

"Governors Seay and McDougal desired to be recorded as voting with a reservation. They believed that the proposal represented a step in the right direction but would prefer to see a larger reduction in the portfolio and did not favor the maintenance of as large excess reserves as at present. Some reservation as to the value of the maintenance of the present volume of excess reserves was expressed by several of the governors.

"It was understood informally that the resolution should be interpreted by the executive committee as follows:

(1) Treasury bills up to $125,000,000 would be allowed to run off in January to the extent that there is a return flow of currency, but not to bring excess reserves below $500,000,000.

(2) When the resolution refers to the present level of reserves it means approximately $500,000,000.

(3) When the resolution refers to the return flow of currency it means the return flow from the December peak just before Christmas.

(4) There would be another meeting of the Conference before any increase in the System holdings of government securities above $1,851,000,000."

<u>Reasons given for action</u>:

" ..... Governor Harrison outlined the various arguments both for and against some reduction in the security holdings of Federal reserve banks. He suggested the following arguments in favor of some reduction:

"(1) The System open market policy had not been one to accumulate any definite amount of securities but rather to check deflation through the reduction of bank debt and the creation of substantial excess reserves, which had been accomplished. It had been generally agreed that after a substantial effective pressure had been secured the System would reduce its security holdings as soon as possible without relieving that pressure. The turn of the year appeared to offer the best chance to decrease the amount of securities without reducing member bank reserves and so not changing policy. If this opportunity were not used during January it might not be feasible to liquidate for a year without decreasing bank reserves and thus giving the appearance of a change in policy.

"(2) Any further substantial increase in excess reserves might not in fact increase effective pressure and would thus serve only to minimize control when necessary.

"(3) Though it was not the motive the fact that the Reserve banks have bought so large amounts of government securities has in fact enabled the Treasury to borrow cheaply and so in some measure has encouraged the continuance of an unbalanced budget.

"Governor Harrison suggested the following arguments in favor of holding the government portfolio intact.

"(1) There is danger that a reduction in security holdings might be construed as a reversal of policy which might in turn increase the danger of the aoption of some radical inflationary policy by Congress since the only effective argument against such inflation is that an orderly policy of reflation is now at work. Any move so interpreted also might be discouraging to business or to bankers holdings a large volume of government securities, who might start to liquidate.

"(2) A reduction in the total holdings might operate as a check to the bond market thus retarding business recovery and further injuring bond portfolios of banks.

"(3) One question was the effectiveness of varying amounts of excess reserves. There are indications that interest on deposits in principal centers might be eliminated. It is difficult to trace the effects of such a move but if limited to bank deposits it would probably distribute the pressure for putting money to work more widely and would thus justify a larger total of excess reserves."

Board action:

Approval of the Federal Reserve Board of the recommendation of the Conference was given in a letter dated January 6, 1933.

333.-C-1

January 6, 1933.

Mr. George L. Harrison,
Chairman, Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York City, New York.

Dear Governor Harrison:

This letter will confirm the oral advice given you yesterday that the Federal Reserve Board has approved the resolution adopted by the Open Market Policy Conference at its meeting on January 5, 1933, and submitted by you to the Board in the following form:

> "It is the sense of the Open Market Policy Conference that there should be no change in the system's policy intended to maintain a substantial amount of excess member bank reserves inasmuch as the continuance of excess reserves in substantial amounts is desirable in present conditions. In view of the return flow of currency during January and prospective gold movements the amount of excess reserves may rise considerably above the present level which is deemed appropriate under present conditions.
>
> "BE IT RESOLVED, THEREFORE, That, pending another meeting of the Conference, the Executive Committee be given authority (a) to reduce the system's holdings of short term Treasury bills in order to offset such amount of the return flow of currency as may seem desirable, provided such action does not result in any substantial reduction in existing excess reserves and (b) if necessary to purchase Government securities in sufficient amounts to prevent member bank excess reserves falling below the present general level."

There is inclosed, for your records, a copy of the statement for the press which was approved at the meeting of the Federal Reserve Board and the Open Market Policy Conference on January 5, 1933.

X-7321 filed 1-6-33

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

SRC/acw

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It is the sense of the Open Market Policy Conference that there should be no change in the system's policy intended to maintain a substantial amount of excess member bank reserves inasmuch as the continuance of excess reserves in substantial amounts is desirable in present conditions, ~~and that~~ in view of the return flow of currency during January and prospective gold movements the amount of excess reserves ~~will tend to~~ may rise considerably above the present ~~amount~~ level which is deemed ~~adequate~~ appropriate under present conditions.

BE IT RESOLVED, THEREFORE, That pending another meeting of the Conference the Executive Committee be given authority (a) to reduce the system's holdings of short term Treasury bills in order to offset such amount of the return flow of currency ~~during January~~ as may seem desirable, provided such action does not ~~reduce member bank~~ result in any substantial reduction in existing excess reserves ~~below $500,000,000~~ and (b) if necessary to purchase Government securities in sufficient amounts to ~~maintain~~ prevent member bank ~~excess reserves at not less than $500,000,000~~ falling below the present excess level ~~pending another meeting of the Conference.~~

It is the sense of the Open Market Policy Conference that there should be no change in the system's policy intended to maintain a substantial amount of excess member bank reserves inasmuch as the continuance of excess reserves in substantial amounts is desirable in present conditions ~~[illegible]~~ in view of the return flow of currency during January and prospective gold movements the amount of excess reserves ~~will~~ may ~~[illegible]~~ rise considerably above the present ~~amount~~ level which is deemed ~~adequate~~ appropriate under present conditions.

BE IT RESOLVED, THEREFORE, That ? pending another meeting of the Conference, the Executive Committee be given authority (a) to reduce the system's holdings of short term Treasury bills in order to offset such amount of the return flow of currency ~~during January~~ as may seem desirable, provided such action does not ~~reduce member bank excess reserves below $500,000,000~~ result in any substantial reduction in existing excess reserves and (b) if necessary to purchase Government securities in sufficient amounts to ~~maintain~~ prevent member bank excess reserves ~~at not less than $500,000,000 pending another meeting of the Conference.~~ falling below the present general level

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X-7321

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

STATEMENT FOR THE PRESS.

For publication in Morning Papers,
Friday, January 6, 1933.

Carded

The Open Market Policy Conference of the Federal Reserve System, with representatives from all of the twelve Federal reserve banks in attendance, concluded its meetings with the Federal Reserve Board today. The sessions of the Conference were devoted to a review of economic, business, financial and banking conditions in each of the twelve Federal reserve districts and to the economic and financial situation in the country as a whole. Particular reference was made in the discussions to the workings and effects of the open market policy thus far pursued by the Federal Reserve System during the course of the economic depression. Consideration was also given to the attitude of the System in adjusting its operations to conditions and needs as they may change and develop.

The first and immediate objective of the open market policy was to contribute factors of safety and stability in meeting the forces of deflation. The larger objectives of the System's open market policy, to assist and accelerate the forces of economic recovery, are now assuming importance.

With this purpose in mind, the Conference has decided that there should be no change in the System's policy intended to maintain a substantial amount of excess member bank reserves, the continuance of which is deemed desirable in present conditions. Adjustments in the System's holdings in the open market account will be in accordance with this policy.

FEDERAL RESERVE BOARD

STATEMENT FOR THE PRESS.

For publication in morning papers,
Friday, January 6, 1933.

The Open Market Policy Conference of the Federal Reserve System, with representatives from all of the twelve Federal reserve banks in attendance, concluded its meetings with the Federal Reserve Board today. The sessions of the Conference were devoted to a review of economic, business, financial and banking conditions in each of the twelve Federal reserve districts and to the economic and financial situation in the country as a whole. Particular reference was made in the discussions to the workings and effects of the open market policy thus far pursued by the Federal Reserve System during the course of the economic depression.. Consideration was also given to the attitude of the System in adjusting its operations to conditions and needs as they may change and develop.

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A. C. M.

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The first and immediate objective of the ~~system~~ open market policy was to ~~It was the consensus of opinion of the Conference that the open market policy of the Federal Reserve System had~~ contributed factors of safety and stability in meeting ~~of material consequence in counteracting~~ the forces of [illegible] deflation. ~~disintegration. that made their appearance both in the domestic situation and in the international~~ financial field during the first half of the year 1932.

This ~~was the first and immediate objective of the open market policy of the System at the time. The succession of incidental crises which then threatened the credit structure having been weathered and the strength of the American financial system having been protected and conserved against transitory shocks.~~ This contraction having been checked the larger ~~and more constructive~~ objectives of the System's open market policy are now assuming importance. ~~These objectives~~ [illegible] ~~make the resources of the Federal Reserve System effectively available to~~ to assist and accelerate the ~~action of~~ the forces of economic recovery,

A. C. M.

A Adjustments in the systems holdings in the open market account will be in accordance with this ~~attitude~~ policy.

With this purpose in mind, ~~and in order to realize for the country the fuller and further potentialities of the open market operations of the Federal Reserve System,~~ the Conference has decided ~~to continue the policy of maintaining for the banking system of the country as a whole a strong cash position by keeping it provided with a liberal margin of surplus reserves.~~ ~~The operations of the System~~ and ~~adjustment in the open market account~~ will be ~~conducted~~ made in accordance with this attitude with ~~and~~ such adjustments ~~as may occur~~ in the open market account ~~[illegible]~~ ~~in conformity with this attitude.~~ as conditions may make necessary

~~[illegible]~~

~~So as to maintain this attitude accomplish this object either through the sales or purchases of govt. securities as conditions require.~~

that there should be no change in the systems policy ~~of~~ intended to maintain a substantial amount of excess member bank reserves the continuance of which is deemed desirable in present conditions. Insert A

CHARTS FOR OPEN-MARKET CONFERENCE

January 4, 1933

1. Physical Volume of Industrial Production.*
2. Production--Durable and Non-durable.
3. Building Contracts.
4. Factory Employment and Payrolls.*
5. Wholesale Prices.*
6. Reporting Member Banks.*
7. Reporting Member Banks.
8. Reporting Member Banks--Total Loans and Investments.
9. New York Funds of Out-of-Town Banks.
10. Velocity--All Reporting Member Banks.
11. Velocity--New York City.
12. Velocity--Outside New York City.
13. U. S. Securities Held by Federal Reserve Banks.
14. Discounts with Federal Reserve Banks.
15. Discounts--by Districts.
16. Banks Suspended and Reopened.
17. Currency--Adjusted.
18. Gold Stock and Reserve Bank Credit.
19. Gold Movements.
20. Customers and Open-Market Rates.
21. Excess Reserves of Member Banks.

*Board Room Charts.

333.04

January 3, 1933
R.& S.
Cr. 3

CONFIDENTIAL

BUSINESS AND CREDIT CONDITIONS

Carded

Some of the factors in the business and credit situation to be considered in deciding on an open-market program are discussed in the following paragraphs.

Business activity

Business activity, after increasing substantially between July and September, has been relatively stable since that time, except for seasonal movements. Industrial production, as measured by the Board's seasonally adjusted index, has continued through December at about 66 per cent of the 1923-1925 average as compared with 58 per cent in July, and factory employment and payrolls have also been maintained in recent months at a relatively higher level. The value of construction contracts which increased in the third quarter, contrary to seasonal tendency, declined considerably in the fourth quarter; residential building continued to be an unusually small part of the total, while the proportion of public works was unusually large. Distribution of commodities by rail has continued at a relatively higher level since September. The value of commodities sold by department stores, however, showed considerably less than the usual increases at the Christmas season and was smaller than a year ago, reflecting in large part lower prices.

Wholesale commodity prices, after reaching a low level in June, increased during July, August, and early September, but since that time have declined by an amount slightly larger than the previous advance. The summer advance in wholesale prices was largely in farm products, foods, hides, and textiles; the subsequent decline has also been in prices of these commodities, particularly grains and livestock, and has reflected in part seasonal factors. Prices of cotton and other textile raw materials, which showed a substantial increase, have declined considerably, but are still somewhat above the low levels of early summer.

In general, the increase in industrial production this fall has been concentrated in industries producing non-durable goods, such as textiles and shoes. During recent months, however, there has been a marked increase in production of bituminous coal, and in December output of automobiles increased substantially in connection with the introduction of new models. Activity at textile mills continued at a relatively high rate in December, according to preliminary reports, and was at about the same level as in the corresponding months of the two preceding years. Output of steel, however, was considerably smaller in December than in the preceding month, or than a year ago,

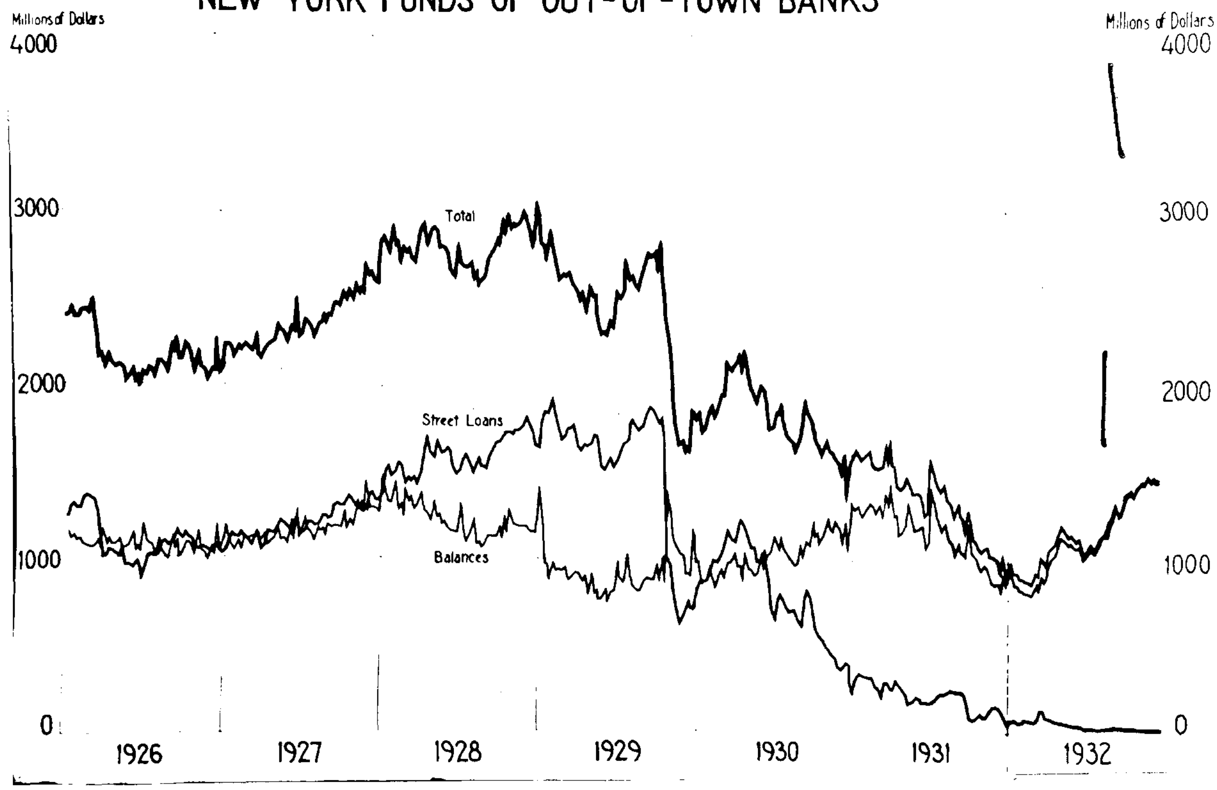
Member bank credit

Volume of member bank credit, as indicated by weekly statements of reporting member banks in leading cities, declined by $250,000,000 between the middle of October and the middle of December. This decline represented a further contraction of loans, both on securities and other, with little change in the volume of the banks' investments. At banks in New York City there was a slight increase in loans and a larger increase in investments, while at banks outside of New York City both loans and investments were reduced.

The decrease of $250,000,000 in loans and investments of these banks during the past two months followed upon an increase of nearly $800,000,000 between July and October, so that the volume of credit in December was still $550,000,000 above its low level in mid-summer.

Notwithstanding the decline in loans and investments, deposits of the reporting banks continued to increase. Time deposits increased by $155,000,000 between July and October and then declined by $50,000,000 to December 21; demand deposits increased by $650,000,000 between July and October, and by an additional $345,000,000 since that time. This increase has been largely the result of a transfer of funds from Government to private account, and an increase in the volume of balances re-deposited by country banks with their city correspondents. The following chart shows the volume of funds of out-of-town banks

NEW YORK FUNDS OF OUT-OF-TOWN BANKS



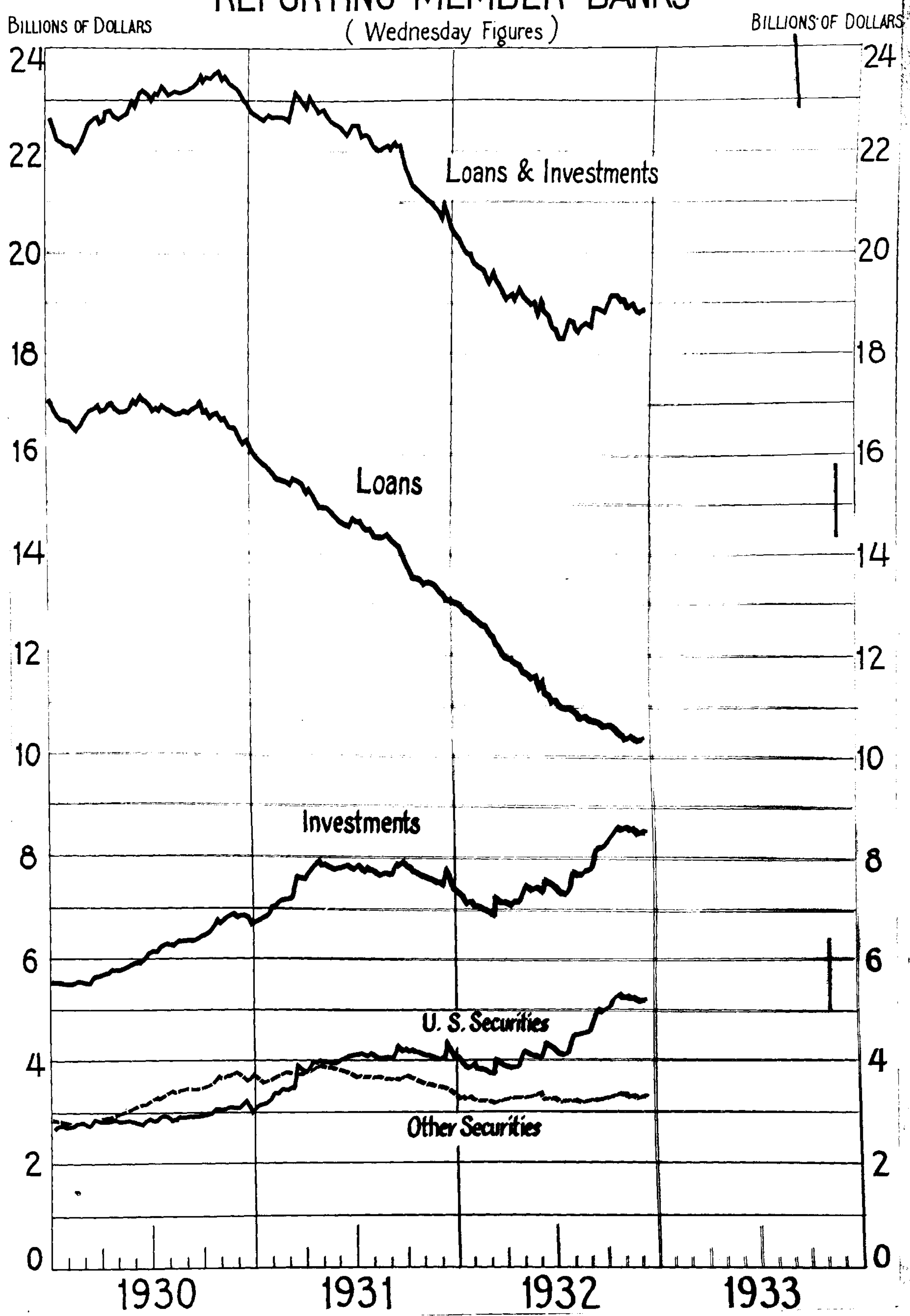
in New York City. These funds ordinarily consist of street loans and balances with correspondents. At the present time street loans for out-of-town banks are negligible and the total volume of $1,470,000,000 of out-of-town bank funds in New York consists of balances held there by correspondent banks. This amount, which represents largely the re-deposit of surplus funds of interior banks with their city correspondents, has increased by about $650,000,000 since last February. The increase in these balances since February has been about twice as large as the excess reserves of the banks in New York City.

Increases in the volume of deposits since the middle of 1932 have been accompanied by further declines in the rate of turnover of deposits; the growth in the means of payment has not been accompanied by an increase in the volume of payments. The rate of turnover of deposits, or their velocity, was 45 times per year in 1929, decreased to 26 by the last quarter of 1930, and to 16 by the last three months of 1932.

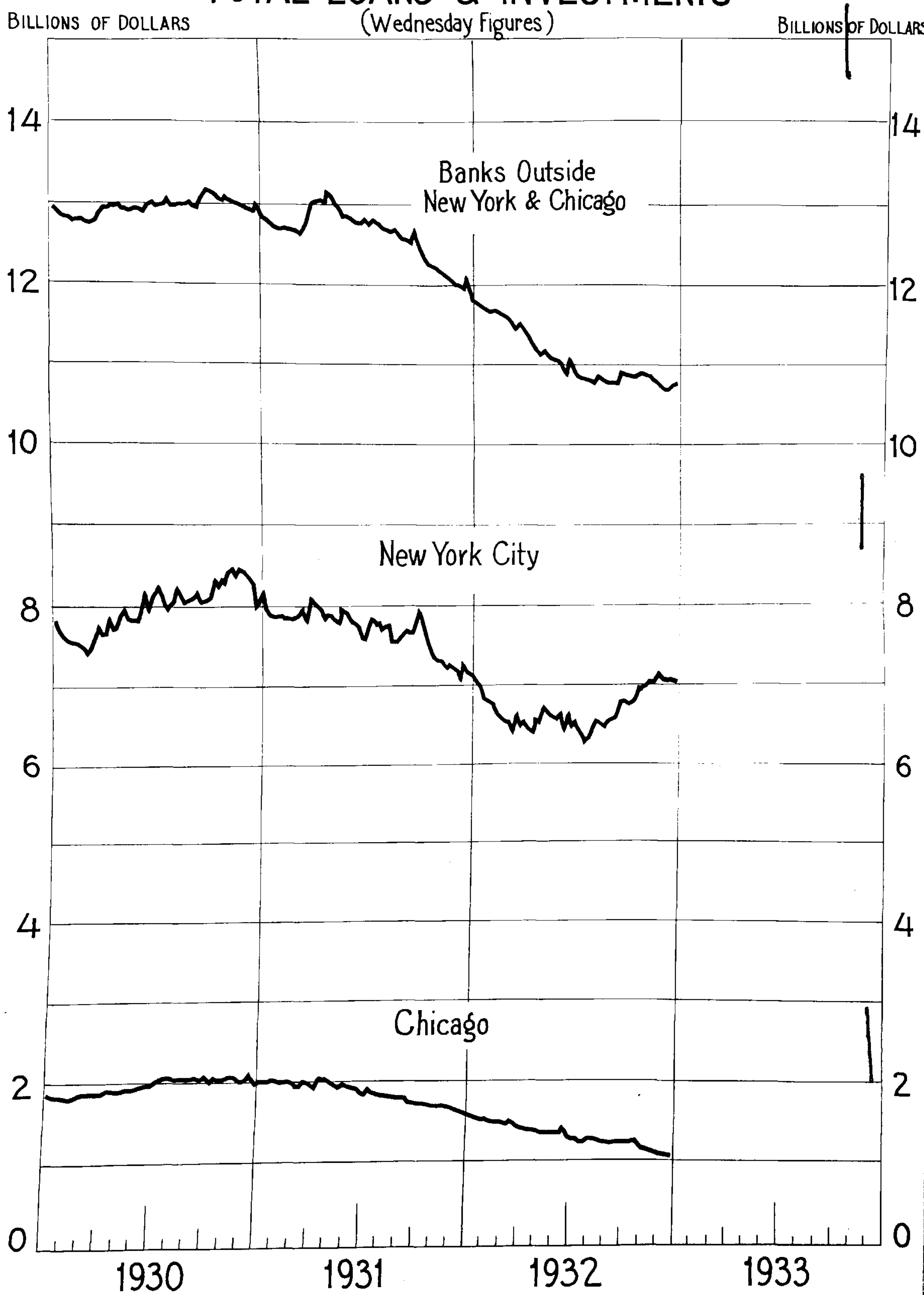
Two charts are shown, giving the course of the principal items in the reporting member bank statement, and the course of loans and investments at banks in New York City, Chicago, and other cities. Another chart shows the volume and distribution of the excess reserves of member banks.

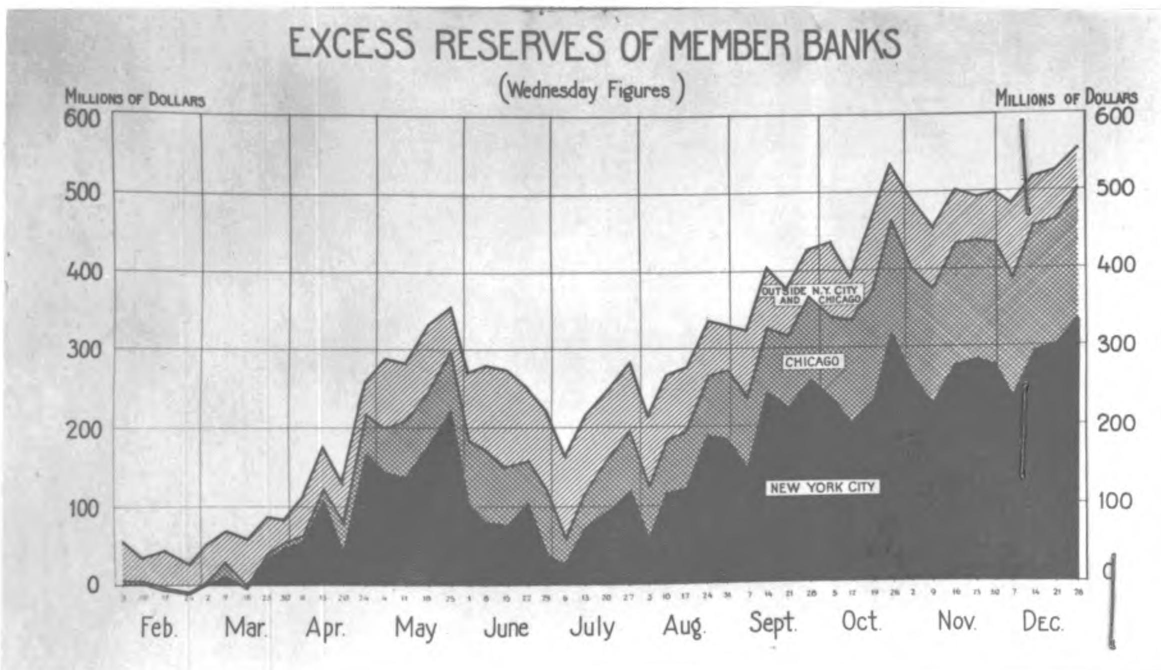
REPORTING MEMBER BANKS

(Wednesday Figures)



REPORTING MEMBER BANKS
TOTAL LOANS & INVESTMENTS
(Wednesday Figures)





Gold movements

Since the middle of June, this country's stock of monetary gold has increased by $596,000,000, of which $105,000,000 was imported, $459,000,000 released from earmark, and $31,000,000 represented domestic production and other minor items. This addition of $596,000,000 to the stock of gold represents a recovery of more than one-half of the gold lost by this country during the nine months preceding last June. The table shows the countries to which the gold was lost during the nine months and from which it was received in the following six months.

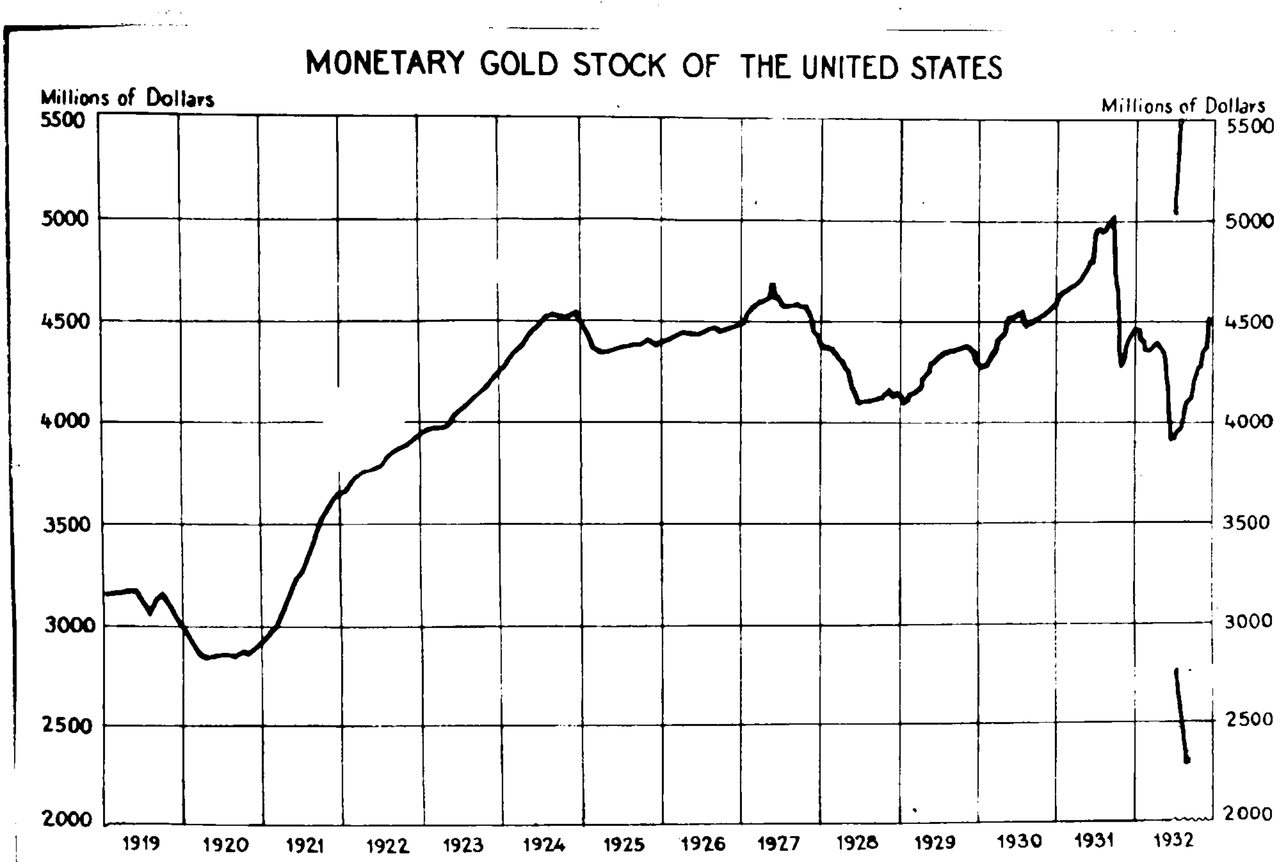
CHANGES IN UNITED STATES GOLD STOCK

September 16, 1931 to December 28, 1932
(In thousands of dollars)

	Sept. 16, 1931 to June 15, 1932	June 16, 1932 to Dec. 28, 1932	Sept. 16, 1931 to Dec. 28, 1932
Change in gold stock..............	-1,107,507	+595,738	-511,769
Net import (+) or export (-)....	- 777,105	+105,528	-671,577
Earmarking operations...........	- 358,514	+459,141	+100,627
Domestic production, etc.	+ 28,112	+ 31,069	+ 59,181
Gains from (+) or losses to (-):			
France.....................	-1,003,423	+194,141	-809,282
Netherlands................	- 165,288	+ 17,785	-147,503
Switzerland................	- 112,979	+ 9,791	-103,188
Belgium....................	- 121,334	+ 23,157	- 98,177
Siam.......................	- 14,649	...	- 14,649
Germany....................	- 12,860	+ 7,467	- 5,393
Japan......................	+ 205,753	+ 10,681	+216,434
England....................	- 45,467	+160,798	+115,331
Canada.....................	+ 56,386	+ 30,105	+ 86,491
China......................	+ 20,662	+ 26,686	+ 47,348
India......................	+ 15,557	+ 17,928	+ 33,485
Mexico.....................	+ 13,112	+ 9,372	+ 22,484
Czechoslovakia.............	- 9,008	+ 19,518	+ 10,510
Other countries............	+ 37,919	+ 37,240	+ 75,159

Taking the period as a whole there was a loss of gold to France of $809,000,000, to Netherlands of $148,000,000, and to Switzerland of $103,000,-000, while receipts were $216,000,000 from Japan, $115,000,000 from England, $86,000,000 from Canada, $47,000,000 from China, $33,000,000 from India, and $22,000,000 from Mexico. Indications are that the gold inflow will continue in the next few months both as a result of this country receiving a considerable part of the new gold mined and of continued imports from Canada, Mexico, and the Far East.

The chart shows the total monetary gold stock of the United States from 1919 to date and brings out particularly the fact that losses of gold by this



country in 1925, 1927-1928, and 1931-1932 have in each case been followed by a return flow of gold. The losses were in all cases due to special circumstances like the Dawes loan in 1925, the easy money and large volume of foreign loans in 1927, and the withdrawal of central bank balances in 1931-1932. The inflow of gold, on the other hand, has lasted over longer periods and has reflected in general the favorable position of the United States in its balance of international payments.

Gold position of the Federal reserve banks

As is indicated by the table below, the reserve ratio of the Federal reserve banks on December 28 was 62.7 per cent, the ratio varying from 49.3 per cent in Minneapolis to 71.7 per cent in Boston. On that date the system had $1,330,000,000 of excess reserves, the largest amount, $432,000,000, being shown by the Chicago bank, and the smallest, $11,000,000, by the Dallas bank. The table shows also the amount of United States securities pledged as collateral for Federal reserve notes by the different Federal reserve banks and the extent to which they would be deficient in their gold position if the authority to pledge Government securities were withdrawn. For the system as a whole this deficiency would amount to $335,000,000. This deficiency could be made up to the extent of $264,000,000 if some arrangement were devised by which the banks would hold none of their own Federal reserve notes in vault. But even in that case there would still be a deficiency of $70,000,000, indicating the great importance of having the provisions of the Glass-Steagall Act continued.

GOLD POSITION OF THE FEDERAL RESERVE BANKS

(Amounts in thousands of dollars)

District	Reserve ratio	Excess reserves	Federal reserve notes outstanding	Collateral			Deficiency in gold (1)	Own Federal reserve notes
				Eligible paper	United States securities	Gold		
	(Per cent)							
Boston.......	71.7	107,511	218,931	13,360	21,400	205,571	- 19,606	21,127
New York.....	57.0	378,981	666,654	57,389	9,000	609,265	- 1,669	87,944
Philadelphia.	56.7	67,028	255,800	49,561	52,000	206,239	- 45,839	16,176
Cleveland....	59.2	90,881	301,546	26,111	85,000	275,435	- 70,642	13,501
Richmond.....	62.2	37,502	110,490	17,192	18,000	93,298	- 15,500	7,602
Atlanta......	55.6	27,643	115,861	25,590	32,000	90,271	- 24,822	18,145
Chicago......	77.3	432,446	730,773	16,801	27,000	713,972	- 6,002	39,863
St. Louis....	58.8	33,633	111,778	6,827	36,200	104,951	- 30,362	8,535
Minneapolis..	49.3	13,404	84,407	8,128	34,900	76,279	- 30,883	3,412
Kansas City..	58.3	32,497	99,767	11,136	29,000	88,631	- 20,239	8,636
Dallas.......	50.1	11,474	44,096	5,065	16,000	39,031	- 12,199	5,069
San Francisco	63.9	97,536	259,614	15,144	68,000	244,470	- 57,545	34,249
Total...	62.7	1,330,537	2,999,717	252,304	428,500	2,747,413	-335,308	264,259

(1) If no United States Government securities were pledged as collateral.

Currency movements

Return flow of currency from hoards was resumed in December, after a period of two months in which there was little change in hoarded money. The chart shows the volume of money in circulation, after adjustment for seasonal variations, for the period from 1922 to 1932.

Chart to be sent over later.

On the basis of available information, it may be roughly estimated that, barring unforeseen contingencies, the return flow of currency from the Christmas peak to the end of January will be about $200,000,000.

National bank notes

Issues of new national bank notes amounted to less than $1,000,000 during the week ending December 28. The rate of new issues reached a peak late in August of $19,000,000 for the week ending August 31, and has been declining since then. It averaged $12,000,000 per week in September, $8,000,000 per week in October, $4,000,000 per week in November, and $2,000,000 per week in December. One large bank in New York City has retired its notes.

Total new issues of national bank notes since passage of the Federal Home Loan Bank Bill amount to $164,000,000. These issues were distributed by Federal reserve districts as follows:

NEW NATIONAL BANK NOTES ISSUED AGAINST BONDS: JULY 22 TO DECEMBER 28, 1932, INCLUSIVE

(In thousands of dollars)

Boston	3,228
New York	19,822
Philadelphia	8,962
Cleveland	8,357
Richmond	5,205
Atlanta	8,304
Chicago	24,481
St. Louis	4,793
Minneapolis	6,313
Kansas City	16,021
Dallas	5,280
San Francisco	52,765
Total	163,533
National bank notes retired--including redemptions against which new issues have not yet been made (partly estimated) July 22 to December 28, 1932, inclusive	17,062
Increase in national bank notes outstanding July 22 to December 28, 1932, inclusive	146,471
National bank notes outstanding, December 28, 1932	880,825

Position of the public debt

The table below shows the volume and composition of the public debt on December 31, 1930, and November 30, 1932. During this period the total gross debt increased from $16,000,000 to $21,000,000, all classes of obligations showing an increase:

PUBLIC DEBT

(In millions of dollars)

	Bonds	Notes	Cer-tifi-cates	Bills	Non-interest-bearing debt	Total gross debt
Outstanding on:						
Dec. 31, 1930...	12,113	2,342	1,192	127	252	16,026
Nov. 30, 1932...	14,257	3,539	2,038	642	330	20,806
Increase from Dec. 31, 1930 to Nov. 30, 1932..........	2,144	1,197	846	515	78	4,780

December financing resulted in an increase of $15,000,000 in the public debt.

The cost of Government borrowing on different kinds of paper in the last two years is shown below; it indicates that financing in December, 1932, was at the lowest cost on record.

	High	(Month)	Low	(Month)
Bonds	3 3/8%	(Mar. 1931)	3 %	(Sept. 1931)
Notes	3 1/4	(Dec. 1931 and Sept. 1931)	2 1/8	(Aug. 1932)
Certificates	3 3/4	(Feb. and Mar. 1932)	3/4	(Dec. 1932)
Bills	3 1/4	(Dec. 1931)	0.09	(Dec. 1932)

January 3, 1933
R.& S.

CONFIDENTIAL

MEMORANDUM FOR OPEN-MARKET POLICY CONFERENCE

In recent weeks business has been marking time. After increasing considerably between July and September, it has remained relatively stable at a level somewhat above the low point, showing resistance to further declines. Commodity prices, however, have lost all of their mid-summer gain and are on the lowest average level of the depression. There is little activity in the capital market. Prices of bonds have shown a gradual downward movement, (but were strong in the last week of the year) while stock prices have fluctuated around a fairly constant level; prices of both classes of securities are considerably above the mid-summer low point.

Credit conditions have improved, bank failures are not as numerous as in the early part of the year, currency is being returned from hoarding, and the country's stock of monetary gold has regained somewhat more than half of the losses from the high point of the autumn of 1931. United States Government securities held by the reserve banks have been held at a constant level of $1,850,000,000 since last August. Additions to the stock of gold, however, together with the return flow of currency from hoards and the issue of national bank notes, have resulted in a growth of member bank reserve balances, which at the present time are in excess of legal reserve requirements by more than $500,000,000.

Notwithstanding the large volume of excess reserves, which has been maintained for several months, the volume of member bank credit has been declining since the middle of October. The banks' investments have remained at a fairly constant level, while their loans, both on securities and commercial, have declined further. Total loans and investments of reporting member banks in leading cities on December 21 were about $250,000,000 lower than on October 19, but still $550,000,000 higher than in mid-summer. The increase since the summer has been all at banks in New York City and all in investments, not in loans.

The picture, therefore, is one of the economic machine of the country being poised at a low level, slightly above the lowest depth reached last summer, showing some power of resistance to forces both national and international pulling it downward, but with the direction of the movement in the New Year still beset with great uncertainties.

Reserve system's open-market program

In these circumstances, the open-market policy of the Federal reserve system to be determined at this meeting is of even greater importance than at other times. The system holds $1,850,000,000 of United States Government securities; discounts and acceptances are at a low level; reserves of member banks are high and increasing as the post-holiday return flow of currency proceeds; short-time money rates are at a record low level; gold reserves of the reserve banks are ample, but the banks are pledging $429,000,000 of United States securities as collateral for Federal reserve notes, and if the authority to pledge Governments as collateral were withdrawn, the banks would be $335,000,000 short in their gold position.

In determining upon a program of open-market policy the maturities of United States securities held should be completely disregarded. These maturities are an accidental matter and there is no reason why the amount that comes due at any given date should ~~in any way~~ influence the system's policy. There is no more reason for letting our portfolio go down as the result of maturities than there was for buying securities in proportion to new issues. The system must decide on a guiding principle for conducting its open-market operations in the light of credit conditions and developments, and not on the basis of a fortuitous circumstance like the maturity composition of its portfolio.

Alternatives to be considered

Several alternative courses of action may be considered:

(1) A program of extensive selling of securities. Concretely, to sell between $500,000,000 and $1,000,000,000 of securities in the next three months.

Proponents of such a program claim that, if carried out, it would relieve the system of the necessity of pledging Governments as collateral for Federal reserve notes, because an increase in bills or discounts would create enough collateral. It would tend to raise short-time money rates and possibly improve the earning power of member banks. It would remove the artificial support of the Treasury which our large holdings of securities represent. Treasury finance would be on a more normal and self-supporting basis.

On the other hand, such a course would be a policy of deflation in the face of business stagnation and credit contraction. With business at low levels and at best only showing a capacity to resist further declines, with prices still drifting downward, and with bank credit continuing to contract, a deflationary policy by the Federal reserve banks could not be seriously contemplated by the system. It would be a factor in making conditions worse; would result in greater difficulty in obtaining credit by trade and industry, and in a depreciation of Government and other securities held by the banks and insurance companies. It would also tend to defeat itself by increasing the flow of gold from abroad and by increasing the inducement for national banks to issue more bank notes. Such a policy would dissipate the good will which the system has been able to preserve through these trying times.

(2) A policy of moderate reduction of the portfolio, fixed in amount at an arbitrary figure, such as $250,000,000, to be accomplished at a weekly rate to be determined. Such a program could be left somewhat flexible by modifying it in case the return flow of currency exceeded or fell below the expected amount. In general, this plan would result, barring unforeseen circumstances, in the maintenance of excess reserves of member banks near their present level.

(3) A definite policy of selling securities in volume sufficient to offset the return flow of currency and the inflow of gold. Such a policy would involve definite recognition of the fact that the central objective of the reserve system's credit policy has been the volume of excess reserves of member banks and the pressure that these reserves exercise in the direction of resumption of activity. It could be decided that the system will maintain excess reserves within a determined range, such as $250,000,000-$500,000,000, or some narrower range. This would mean that securities would be sold when excess reserves exceeded $500,000,000 and bought when they fell below $250,000,000, or some other determined level. Such a plan would be logical and purposeful. It might, however, establish a precedent and furnish a formula which might cause difficulty to the system at other times, when such a course would not be desirable. There was a plan in Congress, proposed as an alternative to the price stabilization bill, to instruct the Federal reserve system to keep the total volume of member bank reserves at a given figure. Such a legislative mandate would be destructive of any rational Federal reserve policy. Adoption of ~~this~~ such a ~~principle~~ program, therefore, although sound in theory, might be undesirable on the ground of inexpediency. If it were presented, however, as the intention of the system, in view of large excess reserves, to offset for the present factors

tending to increase reserves still further, it would not carry a definite implication of a formula.

This plan could be modified by a decision to offset the return flow of currency, but not the inflow of gold. The reasoning back of such a distinction would be that gold imports, because they reduce the reserves of banks in other countries, should be permitted to exert their full influence on the reserves of banks in the United States. The domestic demand for currency, on the other hand, has been met without an increase in member bank indebtedness, partly because it was considered undesirable to permit an abnormal development like the hoarding movement to put the banks heavily into debt and thus to exert a tightening influence on credit conditions. In these circumstances, it would be consistent at this stage to absorb the return flow of currency through the sale of United States Government securities, particularly since the member banks are borrowing little from the reserve banks and have a large volume of excess reserves. Such a modification of this plan would still have the effect of shifting the emphasis from the volume of security holdings by the reserve banks, which is not directly relevant to the credit situation, to the volume of excess reserves of member banks, which should be the central point in credit policy.

~~tending to increase reserves still further, it would not carry so much implication of a formula.~~

(4) A modification of this plan might be to undertake to sell securities when excess reserves exceed $500,000,000, but to make the sales equal to one-half of such excess and not to exceed a fixed amount, say, $25,000,000 a week. This plan would mean that when excess reserves were $550,000,000, $25,000,000 would be sold; if they were $575,000,000, there would still be $25,000,000 sold; and if they were $520,000,000, there would be $10,000,000 sold. A disadvantage of this plan would be that it would look too ingenious, and that it involves precision of action in a situation full of unknown factors.

(5) Another plan would be to have no sales at all, and to allow excess reserves to increase to the full extent of the return flow of currency from circulation and the inflow of gold from abroad. Under this plan the excess reserves would increase probably by $300,000,000 or more in the next two or three months; short-time money rates would become still easier, and in general the situation would represent an accentuation of the conditions which have prevailed since mid-summer. This plan might result in the elimination of interest on deposits in central reserve cities and in a further reduction in other cities; this would tend to remove the pressure for activity exercised by excess reserves. A disadvantage of this plan would be that it might give the impression that the volume of Government securities held by the reserve system is frozen at $1,850,000,000. If that figure becomes thoroughly imbedded in the minds of the public, a departure from it would have an exaggerated effect on the public mind.

(6) A modification of this plan would be a policy of selling about $10,000,000 a week for three months. This volume of sales would still allow excess reserves to increase, since the return flow of currency and inflow of gold is almost sure to be in larger volume, unless unforeseen developments occur. Sales

at the rate of $10,000,000 a week would simply be notice that the amount of Federal reserve participation in the Government security market is not a fixed and inflexible quantity, but can and will be modified as occasion arises.

In considering these various alternatives and others that may be suggested, they may be grouped in general under three broad classifications:

(a) A policy of sales--extensive or moderate--(plans 1 and 2).

(b) A policy of maintenance of excess reserves near present level by buying or selling to offset other factors (plans 3 and 4).

(c) A policy of no action or little action, permitting excess reserves to increase further (plans 5 and 6).

(d)

When a program for the next few weeks is adopted, it would appear desirable to make it definite enough to be capable of being understood by the public. This does not necessarily mean that an official statement would have to be issued, as the information could be conveyed to the press in general terms and informally. It is important, however, that the public should understand at this time what the Federal reserve authorities propose to do.

Circulate

FILE

F. M.

For CIRCULATION:

November 2, 1932.

Please note - initial and return to GOVERNOR.

Mr. Eugene M. Stephens,
Federal Reserve Agent,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stephens:

Please accept my thanks for your letter of October 31 with reference to the Open Market Policy of the Federal Reserve System. I shall be glad to bring the letter to the attention of the other members of the Board.

With best wishes, I am

Very truly yours,

(Signed) Eugene Meyer

Governor.

FILE COPY

FEDERAL RESERVE BANK OF CHICAGO 333.4

230 SOUTH LA SALLE STREET

OFFICE OF THE
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT

October 31, 1932

Hon. Eugene Meyer
Governor, Federal Reserve Board
Washington, D. C.

Dear Governor:

Carded

We had a meeting of our full board last Friday and I had an opportunity to present to them something of your views on the Open Market Policy of the Federal Reserve System, and the desirability of its continuance for the time being. One or two of the more important members of the board had to leave the meeting and there was little opportunity for discussion. However, it is generally understood that nothing will be done about this matter until after the Conference in Washington the middle of November.

As you know, our board has been practically unanimous in its reluctance to approve the purchase and retention of so large an amount of Government bonds in the System, although we have gone along in taking our share. While it seems apparent now that the extension of this Federal Reserve credit last spring was justified by what has since happened, the position of our board now seems to be that they feel the time has come for consideration of some stabilization the other way on account of the large excess reserves. I endeavored to state your point of view and said that the creation of surplus reserves having only been recently accomplished by reason of circumstances last spring which offset additional Federal Reserve credit, some reasonable opportunity should be given for this to get in operation. Further, that this involved the question of the proper time and the proper method of calling in some of the outstanding credit, which would be a matter for full discussion at the Washington Conference. After that conference, the matter will doubtless be reopened with our board and I am confident that they will follow the recommendations of the Conference. I hope, however, that some arguments can be brought to bear and some information be furnished at that time which will tend to enlist a little more hearty cooperation on the part of our board in whatever policy the System may adopt. I have from time to time insisted to our board that this whole operation is a "System" policy, which we should follow and they have done so, but somewhat against their own expressed views of its wisdom.

Very truly yours,

Eugene M. Stevens

Federal Reserve Agent

EMS HH

see ans 11/2/32

-C-1

July 20, 1932

Mr. Geo. L. Harrison, Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Governor Harrison:

This will confirm the advice given you orally that the Federal Reserve Board has approved the action taken by the Open Market Policy Conference at its meeting on July 14, 1932, in authorizing the Executive Committee of the Conference "to buy Government securities to the extent necessary to maintain excess reserves of member banks at approximately $200,000,000, total purchases to be limited to the amount previously authorized by the Open Market Policy Conference, which is $207,000,000" and in expressing, for the guidance of the Executive Committee, the sense of the Conference "that, except in unusual and unforeseen circumstances, purchases should not exceed $15,000,000 a week, but for the next four weeks should not be less than $5,000,000 a week."

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary

SRC/fsf

FILE COPY

Dr. Burgess

333-C-1
7/14/32

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

July 14, 1932.

For CIRCULATION
Gov. Meyer
Mr. Hamlin
Mr. James
Mr. Magee
Mr. Miller
Mr. Pole
Mr.
Mr.
Please note - initial and
Return to Secretary's Office

333

FEDERAL RESERVE BANK

OF NEW YORK

CONFIDENTIAL

July 12, 1932.

Carded

Dear Governor Meyer:

Referring to our telephone conversation this morning, I am enclosing a copy of a letter which I received today from Governor McDougal relative to future open market operations and to redistribution of existing holdings of governments. This letter was in reply to one which I sent to all governors under date of July 5, a copy of which I forwarded to you at the same time.

Faithfully yours,

George L. Harrison

George L. Harrison,
Governor.

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D.C.

Enc.

RECEIVED
JUL 13 1932
OFFICE OF THE GOVERNOR
FEDERAL RESERVE BOARD

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Y

FEDERAL RESERVE BANK OF CHICAGO

July 9, 1932.

Office of the Governor

CONFIDENTIAL

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

Dear Governor Harrison:

We have given very careful consideration to your letter of the 5th instant regarding the proposed policy of increasing purchases of U.S. Government securities to the extent of about $125,000,000 for the purpose of restoring member bank reserves to the point where they would show from $250,000,000 to $300,000,000 excess. We have also considered your suggestion to the effect that reconsideration of the allotment of securities is a necessary accompaniment of a further program of security purchases, owing to the fact that a number of reserve banks have reserves of about 50%, while others have considerably higher percentages.

We are of the opinion that no additional purchases should be made by the System merely for the purpose of increasing the amount of member bank excess reserves. While purchases by the System for the purpose of offsetting gold exports were probably justified, we believe that the additional purchases made were much too large and have resulted in creating abnormally low rates for short-term U.S. Government securities. Treasury bills are being sold by the Government at a yield of less than 1/2 of 1%; one-year certificates with a coupon of 1-1/2%, selling at a premium, yield only about 1% and Treasury notes maturing in 1934 and 1935 yield from 1.90% to 2.60%. This clearly indicates that we went too far in the purchase of Government securities as these rates are abnormally low and have been artificially created by pouring a large excess of funds into the market which it does not need. A minimum rate of 2% for short-term Government securities maturing within a year would be a more natural rate under present conditions.

With regard to your suggestion that reconsideration should be given to the allotment of System purchases of securities among the participating Federal reserve banks, this question has been covered in our answer to Mr. Burgess' letter which was forwarded on the 7th instant. It was pointed out in our letter that while our gold had increased about $250,000,000 since June 1, 1931, our circulation had increased about $500,000,000 and that when return movement of this circulation begins a corresponding reverse movement will be shown in our gold settlement fund.

I note from the last published statement of July 6 that the circulation of your bank amounted to about $613,000,000 and your member bank reserve account is about $858,000,000, whereas the circulation of this bank is over $727,000,000 and our member bank reserves are only $258,000,000. This shows the abnormally large amount of circulation that we have outstanding as compared with your bank. It amounts to over 25% of the entire circulation of all the Federal reserve banks.

We are, therefore, of the opinion that special consideration should be given to such of the reserve banks as have an abnormally high circulation and that allowance for this should be made in any plan for redistribution of the holdings of the System Open Market account and that the participation of banks having an excess amount of circulation should be reduced.

You have called our attention in your letter to the fact that while from the period February 25 to June 29 this year the System as a whole increased its purchases of U.S. Government securities by $1,060,000,000, the net amount of increase in Federal reserve credit was only $612,000,000, the difference being a reduction in discounts, bills bought and other Federal reserve credit.

You will find enclosed tables #1 and #2 showing to what extent each Federal reserve bank contributed to this additional amount of credit. Table No. 1 shows the increase or decrease in the total volume of Federal reserve credit in each Federal reserve bank separately, and it will be noted that two of the banks, Dallas and San Francisco, actually had less total earning assets on June 29, 1932, than they had on February 24, 1932, before the additional purchases of $1,060,000,000 of Governments were made. On February 24, 1932, in accordance with the usual percentages in effect at that time, it was natural to expect that the total investments of each bank would be increased by the amount of their participation in the additional purchases in the System account. However, it appears that New York with 54.4% of the System's increase in total investments and Chicago with 22.6% increase in its total investments, or a total between them of 77.4% of the increase in the System's investments, as compared with 27% for New York and 12-3/4% for Chicago, or a total of 39-3/4% between them, being the percentages which have been used in alloting System purchases, have furnished a much larger amount of the additional amount of credit furnished than the System's percentages of allotment would indicate. Table #2 is intended to show the result of a redistribution of the purchases involved in accordance with the original percentages but based on these percentages of the actual amount of additional credit extended by the System as a whole.

The reserve position of a number of reserve banks may make it impossible to consider a redistribution of the securities by this method but if such is the case it would indicate that the System has already gone too far in the purchase of Government securities and that the ability of certain of the Federal reserve banks to take over the share of nonparticipating Federal reserve banks is due largely to the increased amount of their circulation.

While the passage of the Glass-Steagall Act permitted Federal reserve banks to pledge Government securities to secure Federal reserve note issue was necessary for the purpose of meeting export demands for gold, we feel that the further pledge of such securities to create additional member bank reserves is dangerous and if indulged in much farther may raise the question as to the integrity of our Federal Reserve note issue.

For the reasons stated above, it is our opinion that the System should not increase its purchases of U.S. Government securities and that this bank should not increase the amount of its participation in these purchases.

Very truly yours,

(signed) J. B. McDougal,
Governor.

J

Federal Reserve Bank of Chicago

Comparison Showing Increase or Decrease of each Federal Reserve Bank's Holdings of U. S. Securities, Discounts, Bills Bought and Other Federal Reserve Credit as at close of business February 24 and June 29, 1932.

Table No. 1

	Feb. 24, 1932	June 29, 1932	Increase or Decrease	% Increase or Decrease
Boston				
U. S. Securities	55,968	106,729	+ 50,761	
Discounts	39,599	27,698	- 11,901	
Bills Bought	8,609	4,352	- 4,257	
Other F. R. Credit	1,085	0	- 1,085	
Total	105,261	138,799	+ 33,518	+ 5.3
New York				
U. S. Securities	273,618	694,545	+420,927	
Discounts	168,980	108,676	- 60,304	
Bills Bought	36,746	11,589	- 25,157	
Other F. R. Credit	6,358	4,292	- 2,066	
Total	485,702	819,102	+333,400	+54.8
Philadelphia				
U. S. Securities	58,463	131,998	+ 73,535	
Discounts	122,808	67,542	- 55,266	
Bills Bought	6,567	3,416	- 3,151	
Other F. R. Credit	1,911	1,623	- 288	
Total	189,749	204,579	+ 14,830	+ 2.4
Cleveland				
U. S. Securities	68,572	174,560	+105,988	
Discounts	121,217	43,670	- 77,547	
Bills Bought	7,494	6,232	- 1,262	
Other F. R. Credit	0	0	0	
Total	197,283	224,462	+ 27,179	+ 4.3
Richmond				
U. S. Securities	14,080	47,133	+ 33,053	
Discounts	34,631	25,891	- 8,740	
Bills Bought	7,172	3,282	- 3,890	
Other F. R. Credit	525	0	- 525	
Total	56,408	76,306	+ 19,898	+ 3.1
Atlanta				
U. S. Securities	12,636	52,844	+ 40,208	
Discounts	47,905	27,804	- 20,101	
Bills Bought	7,875	2,083	- 5,792	
Other F. R. Credit	600	0	- 600	
Total	69,016	82,731	+ 13,715	+ 2.2

	Feb. 24, 1932	June 29, 1932	Increase or Decrease	% Increase or Decrease
Chicago				
U. S. Securities	107,315	287,380	+180,065	
Discounts	71,549	34,084	- 37,465	
Bills Bought	20,679	20,258	- 421	
Other F. R. Credit	2,400	0	- 2,400	
Total	201,943	341,722	+139,779	+22.6
St. Louis				
U. S. Securities	27,886	62,415	+ 34,529	
Discounts	21,603	11,962	- 9,641	
Bills Bought	5,809	1,005	- 4,804	
Other F. R. Credit	580	0	- 580	
Total	55,878	75,382	+ 19,504	+ 3.1
Minneapolis				
U. S. Securities	27,656	52,413	+ 24,757	
Discounts	14,636	10,305	- 4,331	
Bills Bought	3,789	632	- 3,157	
Other F. R. Credit	422	29	- 393	
Total	46,503	63,379	+ 16,876	+ 2.7
Kansas City				
U. S. Securities	19,258	54,716	+ 35,458	
Discounts	39,361	20,303	- 19,058	
Bills Bought	7,190	891	- 6,299	
Other F. R. Credit	0	0	0	
Total	65,809	75,910	+ 10,101	+ 1.6
Dallas				
U. S. Securities	27,363	29,596	+ 2,233	
Discounts	15,148	11,633	- 3,515	
Bills Bought	4,500	930	- 3,570	
Other F. R. Credit	0	0	0	
Total	47,011	42,159	- 4,852	-0.8
San Francisco				
U. S. Securities	47,741	106,642	+ 58,901	
Discounts	137,806	80,260	- 57,546	
Bills Bought	16,952	8,849	- 8,103	
Other F. R. Credit	800	0	- 800	
Total	203,799	195,751	- 7,548	- 1.2

All Banks Combined

	Feb. 24, 1932	June 29, 1932	Increase or Decrease	% Increase or Decrease
U. S. Securities	740,556	1,800,971	+1,060,416	
Discounts	835,243	469,828	- 365,415	
Bills Bought	133,382	63,519	- 69,863	
Other F. R. Credit	14,681	5,944	- 8,737	
Total	1,723,862	2,340,262	+ 616,400	+35.81

TABLE NO. 2

COMPARISON SHOWING INCREASE OR DECREASE OF EACH FEDERAL RESERVE BANK'S EARNING ASSETS AS OF FEBRUARY 24 AND JUNE 29, 1932, ALSO INDICATING THE CHANGES IN EACH BANK'S HOLDINGS IN THE EVENT THE "PRESENT ALLOTMENT RATIOS" WERE USED IN PLACE OF THE ACTUAL DISTRIBUTION.

	Actual Percentage of Increase or Decrease	Present Allotment Ratios	Each F.R.Bank's share of total increase in earning assets, basis present allotment ratios	Actual increase or decrease of each F. R. Bank's share of total increase in earning assets	Increase or decrease in each F.R.Bank's earning assets in the event "Present allotment Ratios" were used
			(Thousands Omitted)		
Boston	+ 5.3%	7-1/4%	$ 44,689.	$ 33,518.	+ 11,171.
New York	+54.8%	27 %	166,428.	333,400.	-166,972.
Philadelphia	+ 2.4%	7-3/4%	47,771.	14,830.	+ 32,941.
Cleveland	+ 4.3%	10-1/2%	64,722.	27,179.	+ 37,543.
Richmond	+ 3.1%	5 %	30,820.	19,898.	+ 10,922.
Atlanta	+ 2.2%	4-3/4%	29,279.	13,715.	+ 15,564.
Chicago	+22.6%	12-3/4%	78,591.	139,779.	- 61,188.
St. Louis	+ 3.1%	4-1/4%	26,197.	19,504.	+ 6,693.
Minneapolis	+ 2.7%	3 %	18,492.	16,876.	+ 1,616.
Kansas City	+ 1.6%	5-1/2%	33,902.	10,101.	+ 23,801.
Dallas	-0.8%	3-3/4%	23,115.	-4,852.	+ 27,967.
San Francisco	-1.2%	8-1/2%	52,394.	-7,548.	+ 59,942.
	100%	100%	$616,400.	$616,400.	

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EXCESS RESERVES OF WEEKLY REPORTING MEMBER BANKS SINCE APRIL 6, 1932, WHEN INCREASED FEDERAL RESERVE BANK PURCHASES OF U. S. GOVERNMENT SECURITIES BEGAN, BY FEDERAL RESERVE DISTRICTS

(In millions of dollars; partly estimated)

Date 1932	Total-All weekly reporting banks	Boston: Boston City	Boston: Outside Boston City	New York: New York City	New York: Outside New York City	Phila-delphia	Cleve-land	Rich-mond	Atlanta	Chicago: Chicago City	Chicago: Outside Chicago City	St. Louis	Minn-eapolis	Kansas City	Dallas	San Francisco
April 6	72	2	-1	54	-	1	-	2	2	7	-	1	-	3	2	-1
13	135	2	1	99	4	2	-1	1	1	14	-	2	1	4	2	3
20	89	3	-1	41	-	2	-	1	-	35	-	2	1	2	2	1
27	218	2	-	153	-	-	2	-	1	52	-	2	-	2	2	2
May 4	235	4	1	138	10	3	2	1	1	57	3	4	1	3	2	5
11	242	21	-1	135	2	1	1	1	2	70	1	1	-	3	1	4
18	278	26	-1	165	2	3	1	1	1	69	-2	2	-	5	-1	7
25	311	16	1	209	-	2	2	-	1	72	1	-	1	4	1	1
June 1	227	22	-	100	2	1	-2	3	2	80	2	-1	5	6	2	5
8	220	19	-1	72	4	3	-3	15	2	92	3	3	-	8	-	3
15	205	23	1	65	1	6	4	10	3	75	-2	3	-	7	-1	7
22	204	24	-	103	5	2	-	7	1	54	1	1	-	5	-	1
29	179	20	-1	32	5	-	1	2	1	82	10	6	-	4	6	11
July 6	119	25	-	30	1	2	7	5	1	32	3	4	1	3	5	-

FEDERAL RESERVE BANK

OF NEW YORK

For CIRCULATION
Gov. Meyer
Mr. Hamlin 333.-C-1
Mr. James
Mr. Magee
Mr. Miller
Mr. Pole
Mr.
Mr.
Please note - initial and
Return to Secretary's Office

CONFIDENTIAL July 5, 1932.

Dear Governor Meyer: Carded

I am enclosing a copy of the letter which I have today mailed to all Federal reserve banks concerning the open market operations of the system. This is the letter which was read to your secretary over the telephone this morning.

Faithfully yours,

George L. Harrison

George L. Harrison,
Governor.

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

RECEIVED
JUL 6 1932
OFFICE OF THE GOVERNOR
FEDERAL RESERVE BOARD

all governors.

CONFIDENTIAL

July 5, 1932.

Dear Governor Martin:

In view of the changes in the System position resulting from gold losses, recent bank disturbances, and mid-year events, it seems desirable to review recent open market operations in their relation to the present position of the System and the general banking situation.

Since February 24 the government security holdings of the System have been increased by $1,060,000,000, including some purchases by the Federal Reserve Bank of Chicago for its own account during last week. The disposition of the funds put into the market through these purchases may be tabulated as follows:

Disposition of Funds Made Available by Security Purchases

(In millions of dollars)

Net loss of gold through exports and earmarking	430
Repayment of discounts of Federal reserve banks	365
Reduction in Federal reserve bill holdings	69
Increase in money in circulation	57
Increase in member bank reserve balances	156
Total	1,077

The difference between these figures and the figures for government purchases is made up by a number of miscellaneous items.

This table indicates that the funds made available by security purchases were largely absorbed by heavy losses of gold and by a reduction in Federal reserve discounts and bills. Only a relatively small remaining amount has been made available to form excess member bank reserves which might support an increase in member bank credit.

During this period the excess gold reserves of the System have been reduced from $1,392,000,000 to $942,000,000, that is a decline of $450,000,000, and the combined reserve ratio of the System has declined from 68 per cent to 57 per cent. It is interesting to observe, however, that only a very small part of this change in the System's gold position and the reserve ratio is attributable to purchases of government securities. Most of it has been due to the repatriation of foreign central bank dollar funds, which very probably would have occurred regardless of the policy of the System. The country's gold stock has declined as shown in the above table $430,000,000, or only $20,000,000 less than the decline in the excess gold reserve of the Federal reserve banks. Had there been no increase in the System government holdings this gold loss would necessarily have been accompanied by considerable increase in Federal reserve bank discounts over and above the discounts held at the time security purchases were commenced. In other words member bank borrowings in the Reserve banks instead of declining from $835,000,000 to $470,000,000, would most surely have been increased to well over $1,000,000,000, in addition to some increase in acceptances, and the drastic credit deflation in process in February inevitably would have been accelerated as a consequence.

Thus we see that the open market program was not only effective in preventing the increase in discounts which would have followed such large gold exports, but on the contrary was responsible for a substantial reduction of discounts in spite of such gold losses. Most of the increase in reserve funds resulting from security purchases has been required to meet demands for reserve credit which had to be met in some form. Whether that reserve credit was provided by purchases of government securities, by rediscounts, or by bill purchases, the effect upon the gold position and the reserve ratio would be precisely the same. The reserve ratio is now less than 3% under what it would have been had no securities been bought, and that 3% difference is accounted for by the fact that our open market operations have increased reserve credit about $125,000,000 in excess of the actual demand, and member banks hold approximately this amount of excess reserve deposits. The required reserve against these excess deposits accounts for the difference in the reserve ratio. These excess reserves are, of course, available to meet any demand for currency or gold which may arise or to support an expansion of member bank credit about ten times the amount of the excess.

The following table gives these figures in detail.

(In Millions of Dollars)

F. R. Credit:	Feb. 25	June 29	Change
U. S. securities held	741	1,801	+ 1,060
Discounts	835	470	- 365
Bills bought	133	64	- 69
Other F. R. credit	25	11	- 14
Total F. R. credit	1,734	2,346	+ 612

Principal Demands for F. R. Credit:

Reduction in U. S. gold stock	430
Net increase in currency circulation	57
Total increase in demand	487
Excess of increase in F. R. credit over increased demand	125
Increase in member bank and other deposits in F. R. banks	134

Apart from the effect of open market operations on the technical position of the System it is important briefly to summarize some of the more general results of the System's purchases of securities:

(1) The very large repatriation of foreign central bank funds has been accomplished without any strain on the position of member banks, and thus one important obstacle to a more normal credit position has been removed.

(2) The pressure for liquidation of bank credit which usually results from the indebtedness of member banks has been materially lightened by a reduction in their total borrowings from more than $800,000,000 to less than $500,000,000.

(3) The decline in member bank deposits has been checked, and the liquidation of bank credit which had been proceeding at an alarming rate has been substantially retarded.

The alternative to purchases of government securities would have been a large increase in member bank indebtedness which would have exerted still further pressure towards liquidation, the continuance of which at the rate it was proceeding in February might well have been disastrous.

With the gold outflow apparently checked except for the export of some \$20,000,000 during the next three weeks, about which we shall write you, the only factors which appear likely to influence the System's reserve position in the near future are changes in the currency demand, and changes in member bank reserve balances. If there should be a further increase in the currency demand the form in which the Federal reserve credit is supplied will make no difference in the effect on the System's reserve position.

Member bank reserves have recently fallen short of the 250 to 300 million of excess which it was proposed to maintain, as pointed out in the minutes of the last meeting of the executive committee. In the absence of a return flow of the currency that has recently gone out, it would require the purchase of about \$125,000,000 more Government securities to restore member bank reserves to that level. Even such an amount would reduce the reserve ratio of the System by only about 1 1/2 points, from a little over 57 per cent to slightly under 56 per cent. If excess member bank reserves should now be restored to that basis it seems likely that they will for the first time have an opportunity to exert their full force unless or to the extent that gold exports or currency hoarding should revive. In any event there is now more reason to expect that when excess reserves are restored they can be maintained until bank credit begins to expand -

the real objective of the policy which the System inaugurated in the spring.

While the recent experience shows that the purchases of government securities do not adversely influence the position of the reserve banks as a whole, they may affect the position of individual reserve banks, and the present situation in which a number of the Reserve banks have percentages of about 50 per cent whereas others have considerably higher percentages, clearly requires reconsideration of the allotment of securities as a necessary accompaniment of a further program of security purchases. We have already received a number of comments on the letter and tables mailed to all the Reserve banks on June 24, and shall write you further when more are received.

Very truly yours,

George L. Harrison,
Governor.

Mr. William McC. Martin,
Governor, Federal Reserve Bank of St. Louis,
St. Louis, Mo.

Enc.

Federal Reserve Bank of New York
Reports Department
July 5 1932
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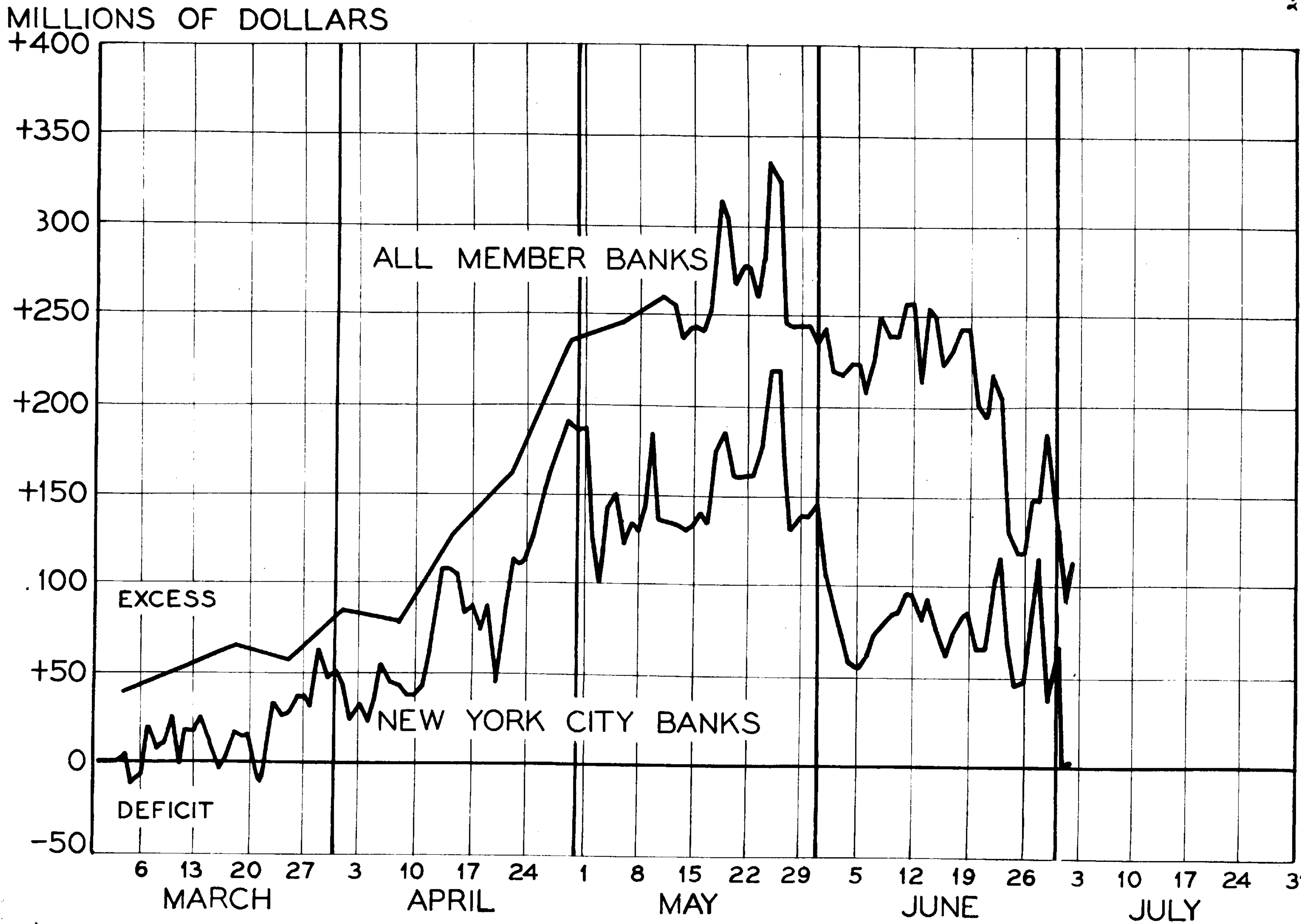

Excess Reserves of Principal New York City Banks and of All Member Banks in the United States

333-C-1
OMPC

July 1, 1932.

Mr. W. Randolph Burgess,
Deputy Governor,
Federal Reserve Bank of New York,
New York City, New York.

Dear Mr. Burgess:

Receipt is acknowledged of your letter of June 25, 1932, addressed to Governor Meyer, with which you inclosed copies of a letter and tabulations, which have been sent to the Governors of all Federal reserve banks, regarding the allotment of government securities.

Your letter is being brought to the attention of the members of the Federal Reserve Board.

Very truly yours,

Chester Morrill,
Secretary.

BRC/rkt

FILE COPY

Armament
(to-exch. ~~~~)

333-C-1

For CIRCULATION
Gov. Meyer ✓
Mr. Hamlin ✓
Mr. James ✓
Mr. Magee ~~absent~~
Mr. Miller
Mr. Pole
Mr. Harrison ✓
Mr.
Please note - initial and
Return to ~~Secretary's~~ Office
File

FEDERAL RESERVE BANK
OF NEW YORK

June 25, 1932.

Dear Governor Meyer:

Carded

I am enclosing herewith for your information copy of a letter and tables which we have just sent to the governors of all Federal reserve banks dealing with the question of the allotment of securities. It is my hope that this information might pave the way for discussions which would lead to some readjustments in holdings as between Reserve banks.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Deputy Governor

Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

WRB.H
encl.

RECEIVED
JUN 27 1932
OFFICE OF THE GOVERNOR
FEDERAL RESERVE BOARD

see ans 7/1/32

(Similar letter sent to governors of all Federal reserve banks)

June 24, 1932.

Dear Governor Martin:

In accordance with a suggestion made at the last meeting of the executive committee of the Open Market Policy Conference I am enclosing herewith two tables showing the amounts of overages or shortages in the holdings of government securities of the different reserve banks on different bases of allotments, which might conceivably be used. The first table is related solely to the holdings in the System special investment account, but the second covers the total holdings of government securities and so includes those securities which the different banks hold for their own account in addition to system account.

The tables appear to indicate that there is no single basis which is entirely satisfactory. The basis which is now being used, which is related to the earnings requirements of the different reserve banks, was adopted at a time when the banks were having some difficulty in earning their dividends. This difficulty does not arise at the present time, though it seems not unlikely to arise from time to time in the future. In recent months the reserve percentages of the banks have become increasingly important and a number of the banks have found it necessary to decline to take additional allotments of government securities because of a narrow margin of available reserves. We appear to be approaching a time when it may be necessary either to adopt a ratio of distribution which gives consideration to reserve percentages, or to make certain arbitrary adjustments in that direction.

We should appreciate your comments upon this question.

Very truly yours,

W. Randolph Burgess
Secretary, Open Market
Policy Conference

Mr. William McC. Martin,
Governor, Federal Reserve Bank,
St. Louis, Missouri,

TABLE NO. 1

STATEMENT SHOWING VARIOUS PLANS OF REDISTRIBUTION OF GOVERNMENT SECURITIES IN SYSTEM ACCOUNT
FIGURES AS OF JUNE 15, 1932
(000 Omitted)

	Amount of Participation in System Account	PLAN 1 — Present Plan - Based on Earning Requirements of Each Bank			PLAN 2 — Provides for Adjustment of Participations to Average Ratio of All Banks - 57.9%			PLAN 3 — Provides for Adjustment of Each Bank's Participation So That Its Holdings Will Be On The Same Ratio That Its Combined Capital and Surplus is to the System Total			PLAN 4 — Provides for Adjustment of Each Bank's Participation So That Its Excess Cash Reserves Will Be On The Same Ratio That Its Capital and Surplus is to the System Total		
		Current Allotment Ratios	Present Holdings OVER or SHORT Of Pro Rata Share		Reserve Ratios	Present Holdings OVER or SHORT Of Pro Rata Share		Ratios of Combined Capital and Surplus to System Total	Present Holdings OVER or SHORT Of Pro Rata Share		Ratios of Excess Cash Reserves to System Total	Present Holdings OVER or SHORT Of Pro Rata Share	
			OVER	SHORT		OVER	SHORT		OVER	SHORT		OVER	SHORT
Boston	$ 95,978	7 1/4%	$ -0-	$ 14,318	67.9%	$ -0-	$ 33,535	7 1/2%	$ -0-	$ 18,121	10 1/2%	$ -0-	$ 28,592
New York	575,120	27 %	164,360	-0-	50.2%	118,294	-0-	32 1/2%	80,687	-0-	21 %	110,450	-0-
Philadelphia	125,628	7 3/4%	7,724	-0-	56.6%	5,151	-0-	10 1/4%	-0-	30,309	7 %	30,165	-0-
Cleveland	165,863	10 1/2%	6,123	-0-	54.2%	16,595	-0-	10 %	13,730	-0-	7 1/4%	26,323	-0-
Richmond	47,132	5 %	-0-	28,934	55.6%	3,649	-0-	4 %	-0-	13,721	2 3/4%	11,764	-0-
Atlanta	49,743	4 3/4%	-0-	22,521	51.8%	10,050	-0-	3 3/4%	-0-	7,307	2 1/4%	14,573	-0-
Chicago	185,390	12 3/4%	-0-	8,580	76.2%	-0-	162,577	13 1/2%	-0-	19,990	35 %	-0-	208,123
St. Louis	56,980	4 1/4%	-0-	7,677	57.3%	1,050	-0-	3 1/2%	3,733	-0-	3 %	4,714	-0-
Minneapolis	43,538	3 %	-0-	2,101	51.0%	8,185	-0-	2 1/4%	9,308	-0-	1 1/2%	6,566	-0-
Kansas City	49,723	5 1/2%	-0-	33,950	53.9%	6,270	-0-	3 %	4,083	-0-	2 1/2%	3,780	-0-
Dallas	19,596	3 3/4%	-0-	37,454	56.8%	896	-0-	2 3/4%	-0-	22,241	1 3/4%	10,889	-0-
San Francisco	106,642	8 1/2%	-0-	22,672	51.1%	25,972	-0-	7 %	148	-0-	5 1/2%	17,491	-0-
TOTALS	$1,521,333	100 %	$178,207	$178,207	57.9%	$196,112	$196,112	100 %	$111,689	$111,689	100 %	$236,715	$236,715

TABLE NO. 2

STATEMENT SHOWING VARIOUS PLANS OF REDISTRIBUTION OF TOTAL HOLDINGS OF GOVERNMENT SECURITIES
FIGURES AS OF JUNE 15, 1932
(000 Omitted)

	Amount of Total Holdings of Government Securities	PLAN 1 — Present Plan - Based on Earning Requirements of Each Bank: Current Allotment Ratios	PLAN 1: Present Holdings OVER of Pro Rata Share	PLAN 1: Present Holdings SHORT of Pro Rata Share	PLAN 2 — Provides for Adjustment of Total Holdings to Average Ratio of All Banks - 57.9%: Reserve Ratios	PLAN 2: Present Holdings OVER of Pro Rata Share	PLAN 2: Present Holdings SHORT of Pro Rata Share	PLAN 3 — Provides for Adjustment of Each Bank's Total Holdings So That Its Holdings Will Be On the Same Ratio That Its Combined Capital and Surplus is to the System Total: Ratios of Combined Capital and Surplus to System Total	PLAN 3: Present Holdings OVER of Pro Rata Share	PLAN 3: Present Holdings SHORT of Pro Rata Share	PLAN 4 — Provides for Adjustment of Each Bank's Total Holdings So That Its Excess Cash Reserves Will Be On The Same Ratio That Its Capital and Surplus Is To The System Total: Ratios of Excess Cash Reserves to System Total	PLAN 4: Present Holdings OVER of Pro Rata Share	PLAN 4: Present Holdings SHORT of Pro Rata Share
Boston	$ 96,729	7 1/4%	$ -0-	$ 25,752	67.9%	$ -0-	$ 33,535	7 1/2%	$ -0-	$ 29,975	10 1/2%	$ -0-	$ 28,592
New York	699,417	27 %	243,282	-0-	50.2%	118,294	-0-	32 1/2%	150,365	-0-	21 %	110,450	-0-
Philadelphia	129,034	7 3/4%	-0-	1,894	56.6%	5,151	-0-	10 1/4%	-0-	44,128	7 %	30,165	-0-
Cleveland	165,863	10 1/2%	-0-	11,523	54.2%	16,595	-0-	10 %	-0-	3,076	7 1/4%	26,323	-0-
Richmond	47,132	5 %	-0-	37,338	55.6%	3,649	-0-	4 %	-0-	20,444	2 3/4%	11,764	-0-
Atlanta	50,052	4 3/4%	-0-	30,194	51.8%	10,050	-0-	3 3/4%	-0-	13,300	2 1/4%	14,573	-0-
C[illegible]go	206,988	12 3/4%	-0-	8,409	76.2%	-0-	162,577	13 1/2%	-0-	21,080	35 %	-0-	208,123
St. Louis	57,480	4 1/4%	-0-	14,319	57.3%	1,050	-0-	3 1/2%	-0-	1,649	3 %	4,714	-0-
[illegible]apolis	50,647	3 %	-0-	35	51.0%	8,185	-0-	2 1/4%	12,636	-0-	1 1/2%	6,566	-0-
Kansas City	49,810	5 1/2%	-0-	43,106	53.9%	6,270	-0-	3 %	-0-	872	2 1/2%	3,780	-0-
Dallas	29,596	3 3/4%	-0-	33,756	56.8%	896	-0-	2 3/4%	-0-	16,862	1 3/4%	10,889	-0-
San Francisco	106,642	8 1/2%	-0-	36,956	51.1%	25,972	-0-	7 %	-0-	11,615	5 1/2%	17,491	-0-
Totals	$1,689,390	100 %	$243,282	$243,282	57.9%	$196,112	$196,112	100 %	$163,001	$163,001	100 %	$236,715	$236,715

333.-C-1

May 17, 1932.

Mr. George L. Harrison, Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York City, New York.

Dear Governor Harrison:

Carded

This will confirm the advice given you orally that the Federal Reserve Board has considered and approves the action taken by the Open Market Policy Conference at its meeting today in voting, subject to the approval of the Federal Reserve Board, to authorize the Executive Committee of the Conference "to continue the purchase of Government securities for System Account as may seem advisable from week to week but not to exceed an aggregate of $500,000,000 without another meeting of the Open Market Policy Conference."

There is attached hereto, for your information and files, a copy of the statement which was issued to the press following the joint meeting of the Board and Conference.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

ECM/rkt

FILE COPY

Mr McClelland

After discussion of credit, banking and business conditions and the effects of the System's Open Market operations on those conditions in recent weeks, it was voted, subject to the approval of the Federal Reserve Board to authorize the Executive Committee of the Open Market Policy Conference to continue the purchase of Government securities for System account as may seem advisable from week to week but not to exceed an aggregate of $500,000,000 without another meeting of the Open Market Policy Conference.

333.-C-1

FEDERAL RESERVE BOARD STATEMENT FOR THE PRESS

May 17, 1932

For immediate release

Carded

The Governors of the Federal Reserve Banks met today with the Federal Reserve Board and it was decided to continue open market operations by the purchase of government securities, the extent and amount to be determined from time to time as conditions justify.

The Governors of the Federal Reserve Banks met today with the Federal Reserve Board and it was decided to continue open market operations by the purchase of government securities, the extent and amount ~~used~~ to be ~~to~~ determined from

time is time as
conditions ~~require~~ justify.

CONFIDENTIAL

C-1

RECONSTRUCTION FINANCE CORPORATION

Statement of Condition as of the Close of Business, May 14, 1932

ASSETS

Carded

Cash-General Account, Symbol 93-300		$275,408,616.37
Cash-Expense Account, Symbol 93-301		48,363.52
Petty Cash Funds		1,700.00
Allocated to Secretary of Agriculture		75,000,000.00
Loans-Proceeds Disbursed (Less Repayments)		
Banks & Trust Companies (1) (2)	$272,513,190.20	
Credit Unions	338,437.00	
Building & Loan Associations	23,295,230.09	
Insurance Companies	14,959,951.84	
Joint Stock Land Banks	724,877.11	
Livestock Credit Corporations	2,795,016.31	
Mortgage Loan Companies	12,084,716.91	
Agricultural Credit Corporations	21,200.00	
Railroads (Including Receivers) (3)	74,030,672.00	
Total		400,763,291.46
Loans-Proceeds Not Yet Disbursed (4)		
Banks & Trust Companies (1)	82,646,640.25	
Credit Unions	11,563.00	
Building & Loan Associations	8,005,086.84	
Insurance Companies	2,746,405.00	
Joint Stock Land Banks	240,122.89	
Livestock Credit Corporations	883,195.00	
Mortgage Loan Companies	2,085,677.22	
Agricultural Credit Corporations	1,152.05	
Railroads (Including Receivers) (3)	22,516,453.00	
Total		119,136,295.25
Accrued Interest Receivable		2,563,053.06
Furniture & Fixtures		97,367.27
Total		$873,018,686.93

CONFIDENTIAL

RECONSTRUCTION FINANCE CORPORATION

Statement of Condition as of the Close of Business, May 14, 1932

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Carded

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Accrued Interest Receivable		2,563,053.06
Furniture & Fixtures		97,367.27
Total		$873,018,686.93

LIABILITIES & CAPITAL

Proceeds of Loans Not Yet Disbursed (4)			$119,136,295.25
Cash Receipts not allocated pending advices			1,962,268.51
Cash Collateral			11,415.54
Unearned Discount			13,430.16
Reimbursable Expense			371.93
Interest Refunds Payable			22.01
Interest Accrued on "First Series" Notes			431,505.00
Interest Earned		$2,643,597.95	
Less-Interest on "First Series" Notes	$431,505.00		
Expense-Washington	284,322.87		
Expense-Loan Agencies	439,178.30		
Expense-Cutodian Banks	25,213.25	1,180,219.42	1,463,378.53
Six Months 3½% "First Series" Notes			250,000,000.00
Capital Stock			500,000,000.00
Total			$873,018,686.93

(1) Loans to Banks & Trust Companies include $11,414,650.00 to aid in Reorganization or Liquidation of closed banks.

(2) Includes $7,168,602.91 to twenty-seven Banks & Trust Companies which closed after the loans were made. Total Loans amounted to $7,462,670.53 and repayments aggregate $294,067.62.

(3) Of Loans Authorized to Railroads $11,570,187.50 is reimbursable from the Railroad Credit Corporation, when, as and if funds are available.

(4) Conditional Agreements outstanding-Not included in above statement:

Banks & Trust Companies	$975,000.00
Reorganization or Liquidation:	
Receivers-State Banks	2,000,000.00
Others-State Banks	2,000,000.00
Total	$4,975,000.00

CONFIDENTIAL

LOANS AUTHORIZED DURING THE PERIOD FEBRUARY 2, 1932 to MAY 14, 1932, inclusive

CLASS OF LOANS	NUMBER LOANS	NUMBER INSTITUTIONS	AMOUNT AUTHORIZED*	WITHDRAWALS AND CANCELLATIONS	PROCEEDS NOT YET DISBURSED	PROCEEDS DISBURSED	REPAYMENTS	PROCEEDS DISBURSED LESS REPAYMENTS
Bks. & Tr. Companies (1)	2574	2299	$363,413,874.56	$1,698,850.00	$76,165,959.53	$285,549,065.03	$17,773,278.27	$267,775,786.76
Reorgtn. or Liquidtn:								
Receivers-Nat'l Banks	159	159	9,204,650.00		5,704,000.00	3,500,650.00	124,000.00	3,376,650.00
Receivers-State Banks	1	1	760,000.00		760,000.00			
Others-Nat'l Banks	2	2	1,000,000.00		11,180.72	988,81[illegible].28	24,137.69	964,681.59
Others-State Banks	3	3	450,000.00		5,500.00	444,500.00	48,428.15	396,071.85
Total-Bks. & Tr. Co. (2)	2739	2464	374,828,524.56	1,698,850.00	82,646,840.25	290,483,034.31	17,969,844.11	272,513,190.20
Credit Unions	1	1	350,000.00		11,563.00	338,437.00		338,437.00
Building & Loan Assn.	246	246	31,420,523.40		8,005,086.84	23,41[illegible],436.56	120,206.47	23,295,230.09
Insurance Companies	45	44	18,912,000.00	1,000,000.00	2,746,405.00	15,165,595.00	205,643.16	14,959,951.84
Joint Stock Land Banks	3	3	965,000.00		240,122.89	724,877.11		724,877.11
Livestock Credit Corp.	16	9	3,700,835.00	11,422.99	883,195.00	2,806,217.02	11,200.70	2,795,016.31
Mortgage Loan Companies	27	27	14,357,000.00		2,085,677.22	12,271,322.78	186,605.87	12,084,716.91
Agricultural Credit Corp.	3	3	22,352.05		1,152.05	21,200.00		21,200.00
Railroads (Incl. Receivers)	35	26	100,500,252.00		22,516,453.00	77,983,799.00	3,953,127.00	74,030,672.00
Total	3115	2823	$545,056,487.01	$2,710,272.99	$119,136,295.25	$423,209,918.77	$22,446,627.31	$400,763,291.46

MAY 14, 1932

	NUMBER LOANS	INSTITUTIONS BORROWING FOR FIRST TIME	AMOUNT AUTHORIZED	CANCELLATIONS	REPAYMENTS
Bks. & Tr. Companies (1)	26	20	$1,569,950.00	$400,000.00	$693,230.02
Reorgtn. or Liquidtn:					
Receivers-Nat'l Banks	4	4	239,500.00		17,500.00
Others-State Banks					1,002.19
Total-Bks. & Tr. Co. (2)	30	24	1,809,450.00	400,000.00	711,732.21
Building & Loan Assn.	2	2	225,000.00		5,663.51
Insurance Companies	2	1	475,000.00		500.00
Livestock Credit Corp.	1	1	67,000.00		
Mortgage Loan Companies					1.00
Railroads			1,186,585.00		
Total	35	28	$3,763,035.00	$400,000.00	$717,896.72

*This Corporation agreed to take over all or any part of February 15th, March 15th, and April 15th issues of Intermediate Credit Bank Debentures which remained unsold on February 15th, March 15th and April 15th. The Issues aggregated $68,025,000.00. All were sold in the open market. These agreements are not included in the above figure.

(1) Excluding loans for reorganization or liquidation.

(2) Including loans for reorganization or liquidation.

DECLASSIFIED
Authority EO 12356 3.3

333.C-1
4-25-32

4/25/32

Mr. Miller then referred to the fact that of the $93,000,000 of Government securities which were purchased for System account during the week ending April 20, $84,945,000 were Fourth Liberty Loan Bonds maturing in 1938, and he stated that in his opinion the proportion of long time Government securities now held in the System account is too large, and that consideration should be given to the advisability of exchanging some of these for Government securities of shorter maturities. X

During the discussion which followed other members of the Board concurred in Mr. Miller's opinion, and the Governor was requested to take the matter up with the Chairman of the Open Market Policy Conference.

Excerpt from minutes for April 25, 1932.

April 16, 1932.

Mr. J. B. McDougal, Acting Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. McDougal:

I have brought to the attention of the Board your letter of April 12, 1932, in which you stated that "the Governors of the Federal Reserve Banks, sitting today as an Open Market Committee, have necessarily given consideration to Senate Bill No. 4115, and to the suggestions in reference thereto submitted by the Federal Reserve Board", and requested that I communicate the conclusion reached to the Banking and Currency Committee of the Senate.

The meeting of the Open Market Committee, as you know, was called by the Federal Reserve Board not for the purpose of considering Senate Bill No. 4115 or the comments and recommendations which the Board submitted to the Senate Committee on Banking and Currency, but for the purpose of considering the open market policy of the system. It seems to the Board that the question whether any Federal reserve bank should submit its views regarding S. 4115 to the Senate Committee on Banking and Currency is one for determination by its board of directors. In the circumstances, the Board does not feel that it should comply with the request contained in your letter.

Very truly yours,

Governor.

333.C-1

April 12, 1932

Mr. George L. Harrison, Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Carded

Dear Governor Harrison:

The Federal Reserve Board has considered the action taken by the Open Market Policy Conference at its meeting here today in voting that, subject to the approval of the Federal Reserve Board, "the executive committee be authorized to purchase up to $500,000,000 of Government securities in addition to the unexpired authority granted at the meeting of the Open Market Policy Conference on February 24, and that these purchases, at least in the initial weeks, should be at a rate as rapid as may be practicable and if possible should amount to $100,000,000 in the current statement week."

This will confirm the advice given to you orally that the Federal Reserve Board approves the action of the Conference.

Very truly yours,

(Signed) Eugene Meyer
Eugene Meyer,
Governor

EMM/fef

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The Conference voted that, subject to the approval of the Federal Reserve Board, the executive committee be authorized to purchase up to $500,000,000 of Government securities in addition to the unexpired authority granted at the meeting of the Open Market Policy Conference on February 24, and that these purchases, at least in the initial weeks, should be at a rate as rapid as may be practicable and if possible should amount to $100,000,000 in the current statement week.

333. -C-1
4/9/32

FREE GOLD OF EACH FEDERAL RESERVE BANK,
APRIL 9, 1932

(In thousands of dollars)

Boston	19,490
New York	166,914
Philadelphia	21,530
Cleveland	21,130
Richmond	10,388
Atlanta	8,024
Chicago	34,965
St. Louis	10,994
Minneapolis	3,968
Kansas City	10,079
Dallas	5,315
San Francisco	20,139
	332,936

DIVISION OF BANK OPERATIONS,
APRIL 11, 1932

copy filed 333.31 meeting 4/12/32

For CIRCULATION
Gov. Meyer
Mr. Hamlin
Mr. James
Mr. Magee
Mr. Miller
Mr. Pole
Mr.
Mr.
Please note - initial and
Return to Secretary's Office

File

8

333. - C - 1

RECEIVED
APR 9 1932
OFFICE OF
THE GOVERNOR

FEDERAL RESERVE BANK
OF NEW YORK

April 8, 1932.

Carded

My dear Governor Meyer:

As I told you over the telephone yesterday, our directors at their meeting yesterday discussed at some length the present banking and credit situation, especially as it has been affected by recent purchases of government securities under authority granted by action of the open market policy conference and approved by the Federal Reserve Board on February 24, 1932.

They were of the opinion that while these purchases have been beneficial, nevertheless, in their judgment, the situation is now such as to warrant a broader and more rapid program on the part of the System. They understood that a meeting of the open market policy conference has been called for next week and that the wisdom of adopting such a program will no doubt be considered at that time. Nevertheless, in view of the urgency of the situation and the importance of pursuing an open market program promptly and vigorously, they voted that, subject to the approval of the Federal Reserve Board, the Federal Reserve Bank of New York should this statement week purchase for its own account \$50 million in government securities in addition to the \$25 million being purchased for System account. This action was taken with the hope that a program of substantially greater purchases than now authorized for System account would be approved by the open market policy conference next week, but with the realization that even if such a program should not be approved, this $50 million additional purchases would not exceed the total amount now authorized under existing resolutions of the conference which limit purchases for System account to $25 million a week.

I am sending this letter in order to confirm my oral report of the action taken by our directors.

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D.C.

Mr Hellard
Mr Morrell

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

For CIRCULATION 8

G Meyer
Mr. Hamlin
Mr. James
~~Mr. Magee~~ absent
Mr. Miller
~~Mr. Pole~~
Mr.
Mr.
Please note - initial and
Return to Secretary's Office

189bfa

RECEIVED AT WASHINGTON, D. C.

NewYork 431p Apr 5

Governor Meyer

Carded

Washington

Confirming telephone conversation executive committee of open market policy conference to-day(voted to continue purchase of Government securities at rate of $25,000,000 a week as authorized by last meeting of open market policy conference.) As explained to you over the telephone it was also voted that it would be desirable to hold a meeting of the open market policy conference in Washington on tuesday April 12. All Federal Reserve Banks have been notified of these actions of executive committee.

Harrison

435pm

See minutes
AT BOARD MEETING

APR ~~8~~ 5 - 1932

SR

U. S. GOVERNMENT PRINTING OFFICE: 1926 3—11091

333.3

OM Policy Conf

March 9, 1932.

Mr. George L. Harrison, Chairman,
Open Market Policy Conference,
Federal Reserve Bank of New York,
New York, N. Y.

Dear Governor Harrison:

Reference is made to the action taken by the Open Market Policy Conference at its meeting on February 24, 1932, in voting that, "subject to the approval of the Federal Reserve Board, the Executive Committee shall be authorized to purchase up to $250,000,000 of Government securities for System account at the approximate rate of $25,000,000 per week", it being understood "that purchases under this program shall be made after a meeting of the Executive Committee called for the purpose of considering such purchases and that the program shall be subject to review by the Conference at any time on call of the Conference or the Federal Reserve Board."

This letter is to confirm, as a matter of record, Governor Meyer's oral advice to the Conference of the Federal Reserve Board's approval of its action. It is understood that, at a meeting of the Executive Committee following the meeting of the Open Market Policy Conference on February 24, it was decided to proceed with the purchases of Government securities

FILE COPY

as authorized by the Conference and approved by the Board, upon the enactment into law of the so-called Glass-Steagall bill.

Very truly yours,

Chester Morrill,
Secretary.

SRC/CM/acw

SRC
CM
EM

FILE COPY

"It is moved that it is the sense of the conference that, subject to the approval of the Federal Reserve Board, the Executive Committee shall be authorized to purchase up to $250,000,000 of Government securities for System account at the approximate rate of $25,000,000 per week. It is understood that purchases under this program shall be made after a meeting of the Executive Committee called for the purpose of considering such purchases and that the program shall be subject to review by the Conference at any time on call of the Conference or the Federal Reserve Board."

333.-C-1

January 19, 1932

Mr. George L. Harrison, Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank,
New York, New York.

Dear Governor Harrison: Carded

The Federal Reserve Board has considered the resolution adopted by the Open Market Policy Conference on January 12, 1932, a copy of which was handed to me by Doctor Burgess, Secretary of the Conference.

The Board approves the authorization granted in the resolution to the Executive Committee of the Conference to purchase for System account, if and when desirable, not to exceed $200,000,000 of Government securities, such purchases to be made only after the approval of the Executive Committee at a meeting to be called for the purpose of considering the occasion or need therefor.

It will be understood, of course, that any action to be taken by the Executive Committee of the Conference under the terms of the resolution will be subject to the approval of the Federal Reserve Board.

* See 333.-C-2 1-11-32

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In view of the fact that no time limit was placed on the authority granted to the Executive Committee, in the resolution passed by the Conference, the Board reserves the right to review and reconsider its approval herein expressed, if and when circumstances justify.

Very truly yours,

(Signed) Eugene Meyer

Eugene Meyer,
Governor

EMM/fsf

FILE COPY

333.3
OMPC

December 1, 1931

Mr. George L. Harrison, Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank,
New York, New York.

Carded

Dear Governor Harrison:

The Federal Reserve Board has considered the recommendations submitted by the Open Market Policy Conference following its meeting with the Board yesterday, and you are advised that the Board approves the granting of authority to the Executive Committee of the Conference, in their discretion, to buy up to $200,000,000 of Government securities before the end of the year.

The Board also approves the granting of authority to the Executive Committee of the Conference, in their discretion, to sell any securities so bought, after the turn of the year if conditions then permit. It is understood that this authority is to run until January 30 or such earlier date as another meeting of the Open Market Policy Conference may be convened.

Very truly yours,

(Signed) Eugene Meyer

Eugene Meyer,
Governor.

EMM/fsf

FILE COPY

The Conference reviewed a preliminary memorandum submitted by the Chairman. They discussed business, banking and credit conditions both here and abroad and considered in particular the effects upon the American banking and credit structure of the recent huge withdrawals of gold and currency and possible further withdrawals of currency for holiday purposes or for hoarding. They further considered the heavy maturities of bills in the System portfolio before the end of the year. While the Conference was of the opinion that there is no occasion for any immediate purchase of Government securities, nevertheless they voted that in view of all circumstances and in order to be prepared if and when occasion arises, the executive committee be authorized in its discretion to buy up to $200,000,000 of Government securities before the end of the year. It was the sense of the Conference that the committee should also be authorized in their discretion to sell any securities so bought after the turn of the year if conditions then permit. The Conference felt that there should be another meeting of the Conference early in January to consider the System's general operations and policies in the light of conditions as they then exist.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date November 27, 1931.

To Mr. Miller

Subject: 333.C-1 OMPC

From Mr. McClelland

ogo 2—8495

At the meeting of the Open Market Policy Conference on August 11 the following resolution was adopted:

> "It is the sense of the Conference that, subject to the approval of the Federal Reserve Board, the Executive Committee be authorized to purchase, for account of such Federal Reserve banks as desire to participate, up to $120,000,000 of Government securities, if and when it becomes necessary or advisable to do so, or if necessary or advisable to sell up to a similar amount.
>
> "It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose."

In its letter of August 18 to the Chairman of the Open Market Policy Conference, the Board stated that it was in accord with the position of the Conference as expressed in the second paragraph of the above resolution, that it was prepared to give favorable consideration to any open market proposal or program "designed to improve matters in the existing economic and financial exigency and to accelerate business recovery," that the Board regards these as "appropriate and valid objectives in determining the character and scope of open market operations of the Federal Reserve System in the present extraordinary and depressed state of business," and that it, therefore, "gives a general approval to the contemplated purchase of Government securities for System account, and in order that it may be prepared to act promptly on the current application of this policy of purchase, it has authorized the Governor of the Board, until such time as the matter of open market policy shall be reviewed and further considered, to act in its behalf with respect to the purchase of an aggregate amount of $120,000,000 of Government securities as fixed in the Recommendation of the Conference." The letter further stated that "the Board is $\boxed{\text{not}}$ authorizing the Governor to exercise "its approval with regard to sales of open market securities acquired for System account. In the event that conditions should take such a turn as to make sales of securities from System account advisable, in the judgment of the Executive Committee of the Conference, the Board would wish to consider the matter."

Following receipt of Governor Calkins' telegrams of October 20 and 21 suggesting that the Board authorize the sale of securities from the Open Market Account, the Board, at the meeting on October 22, discussed the matter, and it was developed as the feeling of the members present that, if recommended by the Executive Committee of the Open Market Policy Conference at its meeting on October 26, they would be inclined to approve the sale of securities or to allow maturities to run off to the extent of $120,000,000, and it was the understanding that Governor Meyer would communicate the feeling of the Board in the matter to the Executive Committee at the time of its meeting.

At the meeting of the Executive Committee of the Conference, it was voted:

> "That while for the moment there is no occasion for a reduction in System holdings of government securities, that by reason of the views expressed by a number of governors favorable to a sale of government securities, and because of the possibility of changes in the credit situation which might make sales desirable, the committee ask the Federal Reserve Board to give the executive committee the same leeway with respect to sales of government securities as it now possesses with respect to purchases as recommended by the resolution of the Open Market Policy Conference on August 11."

Informal discussions at meetings of the Board, following receipt of the minutes of the meeting of the Executive Committee of the Conference, indicated that the members of the Board were not disposed to grant the authority requested, but no formal action has been taken up to the present time.

SRC/EMM/acw

Form 148

Copy

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

Copy

November 17, 1931.

Curtiss- Boston	Stevens - Chicago
Case - New York	Wood - St Louis
Austin - Philadelphia	Mitchell - Minneapolis
DeCamp- Cleveland	McClure - Kansas City
Hoxton- Richmond	Walsh - Dallas
Newton - Atlanta	Newton - San Francisco

Carded

TRANS NO. 1410 For your information the following telegram is being sent today to all Governors QUOTE Board suggests that Conference of Governors and Open Market Policy Conference be held in Washington begining November 30. Conference of Federal Reserve Agents not being called because there seems to be a general feeling that in present circumstances it would be preferable not to have both Chairman and Governor leave their posts at same time. Please wire whether proposed date agreeable UNQUOTE.

MEYER

1

Mr. Carpenter

FEDERAL RESERVE BANK
OF NEW YORK

333.C-1

For CIRCULATION:
Mr. Hamlin
Mr. James
Mr. Magee
Mr. Miller
Mr. Pole
Mr. Morrill
Mr. McClelland
Mr.

Please note-initial and return to GOVERNOR.

October 30, 1931.

Carded

Dear Governor Meyer:

I think you may be interested in the enclosed copy of Governor Seay's letter of October 28, and my reply of the 29th.

Very truly yours,

George L. Harrison
George L. Harrison
Governor

Hon. Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

RECEIVED
OCT 31 1931
OFFICE OF
THE GOVERNOR

COPY

FEDERAL RESERVE BANK
OF RICHMOND

October 28, 1931.

Dear Dr. Burgess:

We thank you for your letter of the 27th sending us a copy of the minutes of the meeting of the Executive Committee of the Open Market Policy Conference, held at your bank on October 26, and a preliminary memorandum on credit conditions submitted to the Executive Committee at its meeting.

We have tentatively considered the conclusions of the Executive Committee, and are frank to say that, while these conclusions are reasonable and we know are intended to meet the situation as far as it can be met in an equitable manner, the whole plan of operation of the Open Market Policy Committee, or Conference, leaves much to be desired and in my opinion calls for further consideration. We hardly think that any Federal Reserve Bank would be willing to abrogate its independence of action and as a consequence be placed in a position, according to the language of the report (first paragraph, page 5) of having to "offer participation in these bills and securities to the other banks with the understanding that those whose reserve position is such as to enable them to take bills and securities should cooperate to the fullest extent possible."

In my judgment, if the Open Market Policy Conference is to be preserved a more binding plan, automatically operative, will have to be devised.

Very truly yours,

GJS-CCP

(Signed) GEO. J. SEAY,
Governor.

Dr. W. Randolph Burgess, Deputy Governor,
Federal Reserve Bank of New York,
New York City.

October 29, 1931.

Dear Governor Seay:

Dr. Burgess has shown me this morning your letter of October 28, which crossed in the mail my letter of yesterday on the same subject.

Of course, the difficulty lies in preserving freedom of action for the banks who would take over bills and securities, as well as for the banks who might have them to sell, and neither one naturally wishes to abrogate completely its own right of decision in any case. In response to our earlier telegram we have communications from a number of Reserve banks that they did not desire a plan which would appear to abrogate the authority of their directors. Moreover, it is difficult to make any plan completely automatic, and whenever judgment is necessary someone must exercise that judgment. The committee has been reluctant to assume too great responsibility, and desires to leave to the directors and management of the several Reserve banks the maximum of choice consistent with the maintenance of a System policy.

The difficulty you raise, of course, is inherent in our open market organization which, in the nature of the case, has to be a little informal. Practically speaking we do not anticipate any difficulty. In this bank we are, of course, prepared, so long as we are able to do so, to come to the aid of other Reserve banks whenever that appears to be necessary. But apart from the willingness of other banks to do likewise the Federal Reserve Board, of course, has the power under the Act to arrange rediscounting between Federal reserve banks so that in the final analysis each bank is sure of protection. In the meantime it is our belief that the plan suggested, while it may appear a little indefinite, is best adapted to preserving the rights of the several Reserve banks, while at the same time assuring protection to all and a coordinated System policy.

Very truly yours,

George L. Harrison,
Governor.

Mr. George J. Seay,
Governor, Federal Reserve Bank,
Richmond, Virginia.

333.-C-1

FEDERAL RESERVE BANK

OF NEW YORK

October 29, 1931.

Dear Governor Meyer:

Carded

At the meeting of the executive committee of the Open Market Policy Conference on Monday, October 26, at this bank, the following motion was passed:

> "It was moved and carried that while for the moment there is no occasion for a reduction in System holdings of government securities, that by reason of the views expressed by a number of governors favorable to a sale of government securities, and because of the possibility of changes in the credit situation which might make sales desirable, the committee ask the Federal Reserve Board to give the executive committee the same leeway with respect to sales of government securities as it now possesses with respect to purchases as recommended by the resolution of the Open Market Policy Conference on August 11."

The reasons for this motion are, I believe, evident in the minutes of the meeting which have already been transmitted to you, and I believe that you were yourself present at the meeting at the time the motion was passed.

I should be glad if the Board would give consideration to this recommendation.

Very truly yours,

George L. Harrison
George L. Harrison
Governor

Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date October 22, 1931.

To Governor Meyer

Subject: 333-C-1

From Mr. Morrill

2—8495

At the meeting of the Board this morning, during the discussion of the advisability of approving sales of securities from the open market account, it was developed as the feeling of the members present, that if recommended by the Executive Committee of the Open Market Policy Conference, they would be inclined to approve the sale of securities, or to allow maturities to run off, to the extent of $120,000,000, and you stated that you would communicate the feeling of the Board in the matter to the Executive Committee of the Conference at its meeting on Monday.

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date October 21, 1931.

To Governor Meyer

Subject: 333.-C-1

From Mr. McClelland

2—8495

10-21-31

At the meeting of the Board this morning following discussion of the subject of the attached telegrams from Governor Calkins, it was the feeling of the Board that a meeting of the Open Market Policy Conference should be held at as early a date as possible. You stated that you would take up the matter of a full conference meeting at the time of the meeting of its executive committee in New York on Monday.

see telegrams 10/19/31 and 10/20/31

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

333-C-1

6gb RECEIVED AT WASHINGTON, D. C.

SanFrancisco Oct 20 32?p,m Oct 21

Gov Meyer,

Washn

Referring your wire today answering mine of yesterday I consider prompt attention to this matter essential and am advised that executive committee of Ompc will meet next Monday which in view of the tight situation which is imminent if not here does not satisfy me. I received following wire from Governor Harrison dated yesterday QUOTE: In view of the reduction in amount of free gold and in reserve ratio which is affecting the several Reserve Banks somewhat unequally it may be desirable to take steps which will protect the position of all banks and avoid too great fluctuation in these figures. In view of hesitancy on the part of some of the otherx banks to participate in repurchases of governments and or bills unless absolutely essential, it occurs to us that it would be advisable promptly to set up some procedure whereby some one central source or committee will have figures available daily for each federal reserve bank and some more,or less definite authority to make adjustments from day to day as occasion arises. With that in mind would it be agreeable to you to prefer this task to the executive committee of the open market policy conference in order that they may perhaps appoint a subcommittee to watch the situation and handle it from day to day. We see no other practicable way of satisfactorily making adjustments which may be needed. unquote, and send following reply dated today quote: we would be disposed

See minutes

U. S. GOVERNMENT PRINTING OFFICE: 1928 2—11901

1 AR.

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.

a meeting in Newyork on monday next to discuss setup of adequate machinery to handle applications from individual reserve banks. In the meantime in view of general reluctance of many of the reserve banks to increase their holdings of government securities it is suggested that any reserve bank desiring to improve its reserve percentage advise us promptly of the amount of bills which they would like to have us offer for participation by other federal reserve banks the general sentiment being that adjustments of reserve percentage should be made through a resale of bills rather than through a resale of governments. I am sending similar telegram to all governors pending meeting of executive committee on monday next unquote.

Calkins.

925am

U. S. GOVERNMENT PRINTING OFFICE: 1928 2—11901

Form 148 A

333.E-1

FEDERAL RESERVE BOARD
LEASED WIRE SERVICE
WASHINGTON

The telegram given below is hereby confirmed.

2—9454a GPO

October 20, 1931.

Calkins - San Francisco

10/19/31

Your telegram re possible sales from system open market account will be brought to attention of executive committee of Open Market Policy Conference, as contemplated in last sentence of Board's letter August 18th. You will be advised later.

Meyer.

See minutes

see ans 10/20/31

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

3 > 3.C-1

10-20-31

19g m

RECEIVED AT WASHINGTON, D. C.

Sanfrancisco oct 19 427p oct 20

Governor Meyer

Washn Carded

In view of recent trend in situation of federal Reserve Banks "A" as to free gold "B" as to reserve percentages "C" as to restricted market for governments which will be further narrowed by advancing rates board might give consideration to reversal of its action taken August eighteenth on recommendation of open market policy conference when the Board said quote Board is not authorizing governor to exercise its approval with regard to sales of open market securities acquired for system account unquote May I have your views by wire or will you telephone me between twelve and one your time Tuesday ?

Calkins

214

915a

U. S. GOVERNMENT PRINTING OFFICE: 1928 2—11901

See Ans 10/20/31

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date August 25, 1931

To Mr. James

Subject:

From Mr. McClelland

2—8495

At the meeting of the Executive Committee on August 20th, Mr. Miller referred informally to the advice contained in a letter addressed to the Board under date of August 13th by Governor Harrison of the Federal Reserve Bank of New York, that while the need for the purchase of $50,000,000 of Government securities authorized by the New York Directors and made on August 10th and 11th occurred too rapidly to secure its execution under System authorization, he has written to all Federal Reserve banks offering them participation to be carried in their independent accounts rather than in the System's special investment account.

He stated that entirely apart from the fact that such a distribution of purchases made by the New York Bank is outside the provisions of the open market procedure set up with the approval of the Board, it seemed clearly also to be contrary to the intent of the Federal Reserve Act in that it was tantamount to a rediscount operation by the Federal Reserve Bank of New York without any participation by or authorization of the Federal Reserve Board. He stated that it was a step in the direction of pooling the reserves of the Federal Reserve System for the disposal of the New York Bank without any System policy covering such a move. He suggested that serious consideration of this angle of the matter be given by the Board.

Mr. Miller also expressed the opinion that the same question arose in connection with the participation of the other Federal Reserve banks in the foreign credits arranged through the New York Bank. He said that he thought the matter of participation by all banks was one to which the Federal Reserve Board should give consideration in each case, as some of the Federal Reserve banks have serious problems of their own to deal with in the face of which they may find it necessary on occasions to transfer their participations in the foreign investments to the other banks.

In connection with the ~~above~~ matter first referred to above, the following is quoted from the weekly letter addressed to the Board by the Federal Reserve Bank of New York:

> "During the week we offered to the other Reserve Banks participation in the $50,000,000 of governments acquired by us last week, but up to the present time none of them has expressed a desire to participate. Most of the banks indicated as their reason that they did not wish to weaken their reserve position."

E.R.J.

FOR INFORMATION OF GOVERNOR
and Return to Wachet

332.C-1

August 18, 1931.

Dear Governor Harrison:

The Federal Reserve Board has considered the Report and Recommendation of the Open Market Policy Conference held August 11, 1931.

I am desired to advise you that the Board is in accord with the position of the Conference as expressed in the following statement:

> "It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose."

In consequence, the Board is prepared to give favorable consideration to any open market proposal or program which is designed to improve matters in the existing economic and financial exigency and to accelerate business recovery. The Board regards these as appropriate and valid objectives in determining the character and scope of open market operations of the Federal Reserve System in the present extraordinary and depressed state of business.

The Board, therefore, gives a general approval to the contemplated purchase of Government securities for System account, and in order that it may be prepared to act promptly on the current application of this policy of purchase, it has authorized the Governor of the Board, until such time as the matter of open market policy shall be reviewed and further considered, to act in its behalf with respect to the purchase of an aggregate amount of

$120,000,000 of Government securities as fixed in the Recommendation of the Conference. The Board is not authorizing the Governor to exercise its approval with regard to sales of open market securities acquired for System account. In the event that conditions should take such a turn as to make sales of securities from System account advisable, in the judgment of the Executive Committee of the Conference, the Board would wish to consider the matter."

Very truly yours,

Eugene Meyer,
Governor.

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

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

~~August [illegible], 193[illegible].~~

Dear Governor Harrison:

The Federal Reserve Board has considered the Report and Recommendation of the Open Market Policy Conference held August 11, 1931.

I am desired to advise you that the Board is in accord with the position of the Conference as expressed in the following statement:

> "It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose."

In consequence, the Board is prepared to give favorable consideration to any open market proposal or program which is designed to improve matters in the existing economic and financial exigency and to ~~[illegible]~~ accelerate business recovery. The Board regards these as ~~[illegible]~~ appropriate and ~~most~~ valid objectives in determining the character and scope of open market operations ~~by~~ of the Federal Reserve System in the present, extraordinary and depressed state of business.

The Board, therefore, gives a general approval to the contemplated purchase of Government securities for System account, and in order that it may be prepared to act promptly on the current application of this policy of purchase, it has authorized the Governor of the Board, ~~for and on its behalf,~~ until such time as the matter of open market policy ~~[illegible]~~ it will be reviewed and further considered, ~~[illegible]~~

purchase

Gov.

to act in its behalf — the purchase of an aggregate

~~exercise its approval~~ with respect to ~~the~~ amount of $120,000,000 ~~of~~ of U.S. Securities as ~~purchases~~ fixed in the Recommendation of the Conference. The Board is not authorizing the Governor to exercise its approval with regard to sales of open market securities acquired for System account. In the event that conditions should take such a turn as to make sales of securities from System account advisable, in the judgment of the Executive Committee of the Conference, the Board would wish to consider the matter.

Very truly yours,

[redacted]

Eugene Meyer,
Governor.

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

Subject: Open Market Policy Conference
Report and Recommendation
August 11, 1931.

The Federal Reserve Board has considered the Report and Recommendation of the Open Market Policy Conference held August 11, 1931.

I am desired to advise you that the Board is in accord with the position of the Conference as expressed in the following statement:

> ~~"It is the sense of the Conference that, subject to the approval of the Federal Reserve Board, the Executive Committee be authorized to purchase, for account of such Federal Reserve banks as desire to participate, up to $120,000,000 of Government securities, if and when it becomes necessary or advisable to do so, or if necessary or advisable to sell up to a similar amount.~~
>
> "It is the opinion of the Conference that economic conditions in this country and throughout the world are now such that it is essential that the System be prepared promptly to take whatever further proper steps are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such steps will be effective in accomplishing this purpose."

In consequence, the Board is prepared to give favorable consideration to any open market proposal or program which is designed to improve matters in the existing economic and financial exigency and to stimulate business recovery. The Board regards these as legitimate objectives in determining the character and scope of open market operations by the Federal Reserve System in the present depressed state of ~~industry, trade and investment~~ business.

The Board, therefore, gives a general approval to the contemplated purchase of Government securities for System account, and in order that it may be prepared to act promptly on the current application of this policy of purchase, it has authorized the Governor of the Board, for and on its behalf, ⊗ to exercise its approval with respect to the amount of $120,000,000 of purchases fixed in the Recommendation of the Conference, ~~and~~ (until such time as the matter of open market policy should be reviewed and further considered) The Board is not authorizing the Governor to exercise its approval with regard to sales of open market securities acquired for System account. ~~under the authorization given in its general approval of the Recommendation of the Conference.~~ In the event that conditions should take such a turn as to make sales of securities from System account advisable, in the judgment of the Executive Committee of the Conference, the Board would wish ~~to have this~~ to consider the matter. ~~considered in conference of the Executive Committee with it.~~

A. C. M.
August 13, 1931.

1

TELEGRAM

333.-C-1

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

8-13-31

105bs RECEIVED AT WASHINGTON, D. C.

NewYork 155p Aug 13

Board

Washn

Carded

Following will confirm resolution of the Open Market Policy conference August 11 transmitted orally to the Board by Governor Harrison Quote It is the sense of the conference that subject to the approval of the Federal Reserve Board the executive committee be authorized to purchase for account of such Federal Reserve Banks as desire to participate up to $120,000,000 of Government securities if and when it becomes necessary or advisable to do so or if necessary or advisable to sell up to a similar amount it is the opinion of the conference that economic conditions in this country and throughout the world are now such that it is essential that the system be prepared promptly to take whatever further proper steps that are in its power to encourage or facilitate a recovery in conditions as soon as it appears likely that such

See Ans 8/18/31

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

sheet 2-105bs

RECEIVED AT WASHINGTON, D. C.

steps will be effective in accomplishing this purpose End Quote

Burgess

101PM

U. S. GOVERNMENT PRINTING OFFICE: 1938 2—11901

/

333.-C1

August 13, 1931.

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

My dear Governor Harrison:

Upon the return of Mr. Miller and myself to Washington on Tuesday, August 11, I reported to the Federal Reserve Board the authorization granted on Monday by the Executive Committee to the officers of the Federal Reserve Bank of New York to purchase up to $50,000,000 of United States Government bonds with a view to offsetting the retirement of an approximately equal amount of Treasury bill holdings which were maturing this week in the account of the Bank of France, resulting in withdrawing currency from the money market.

I had previously indicated to you that the attitude of the Federal Reserve Board at this time was sympathetic and favorable to the purchase of United States Government securities and on this account I knew when I heard the matter discussed at the meeting of your Executive Commiëtee that the Federal Reserve Board was sympathetic to the purchase authorized by your Bank , entirely apart from the peculiar circumstances which prompted your Executive Committee to actiwithout delay.

These purchases by the Federal Reserve Bank of New York are approved by the Federal Reserve Board.

Very truly yours,

(Signed) Eugene Meyer

Governor

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

333.-C-1

Date August 14, 1931.

To All Members of the Board

Subject:

From Mr. McClelland

2—8495

At the meeting this morning there was ordered circulated the attached letter dated August 13th from the Governor of the Federal Reserve Bank of New York, with regard to the purchase by that bank, under authority from its executive committee, of $50,000,000 of Government securities.

Governor Meyer
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Magee
Mr. Pole absent

Please circulate promptly and return to this office.

333.-C-1

FEDERAL RESERVE BANK

OF NEW YORK

August 13, 1931.

Dear Governor Meyer:

Carded

On Monday of this week the directors of this bank at their executive committee meeting, at which both you and Mr. Miller were present, voted to purchase $50,000,000 of government securities for the account of this bank to meet an unusual situation which had developed in the money market, which seemed to require prompt action. Two events operating together served to bring about a sudden change in money conditions from those which prevailed during June and July.

The Bank of France, as you know, has been allowing to mature bills held for their account here and has been letting the proceeds accumulate in the Reserve Banks as free balances. This operation takes funds directly out of the money market. Through this means foreign bank balances in the Federal Reserve Bank had been increased to $132,000,000 by August 5, and this amount of funds thus removed from the market. But on Monday last this amount was suddenly increased by an additional $48,000,000 by reason of a maturity of Treasury bills held by the Bank of France.

Simultaneously the closing of three small New York City banks, together with a group of four banks just across the river in New Jersey, resulted in some uneasiness in the banking situation and heavy withdrawals of currency from us amounting in the first ten days of August to about $75,000,000 net. This situation, however, has since quieted down and about $25,000,000 of this excess has been returned to this bank.

As a result of these two events the New York City banks not only lost all of the surplus reserves which they had been carrying for two months past but were forced to borrow more than $30,000,000, as well as to sell us considerable amounts of bankers bills. Dealers in bankers acceptances, moreover, resorted to repurchase agreements to an amount of about $60,000,000. It was in order to meet this situation and to prevent its injuriously affecting the money market position and causing undue or sudden hardening in money conditions, that our directors felt it desirable to act quickly in this purchase of securities. This letter is merely to confirm the discussion which you heard at the meeting of our directors.

In accordance with this vote $50,000,000 of securities were purchased on Monday and Tuesday of this week, consisting largely of Treasury bills and other short term issues. While the need for this purchase occurred too rapidly to secure its execution under system authorization, we are writing to all Federal Reserve Banks offering them participations to be carried in their independent accounts rather than in the system special investment account.

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

See memo 8/25/31

Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

See Ans 8/13/31

Ordered circulated

AT EXECUTIVE COMMITTEE MEETING AUG 14 1931

Answered

dictated by C.L.H. but not read.

333.-C-1

May 11, 1931

Dear Governor Harrison:

Governor Meyer has received and is bringing to the attention of the other members of the Board your letter of May 7th, transmitting a copy of the vote taken by the Open Market Policy Conference at its meeting on Wednesday, April 29th; also a copy of a memorandum report submitted by the Chairman of the Conference.

It is noted that the formal minutes of the meeting will be available within a few days.

Very truly yours,

E. M. McClelland,
Assistant Secretary

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

FEDERAL RESERVE BANK

OF NEW YORK

May 7, 1931.

CONFIDENTIAL

Dear Governor Meyer:

For your convenience in reference and in order to confirm what I dictated to your secretary on the telephone this morning, I am enclosing a copy of the vote of the open market policy conference taken at its meeting in Washington on Wednesday, April 29, which was read to the Federal Reserve Board at our joint meeting on April 30.

I am also enclosing for your information a copy of a memorandum presented by the chairman of the open market policy conference, which is referred to in the above vote of the conference.

I am sending these documents to you now pending the completion and distribution of the formal minutes of the conference, which should be available in a day or two.

Very truly yours,

George L. Harrison

George L. Harrison,
Governor.

RECEIVED
MAY - 8 1931
OFFICE OF
THE GOVERNOR

Honorable Eugene Meyer,
Governor, Federal Reserve Board,
Washington, D. C.

Encs.

see ans 5/11/31

CONFIDENTIAL

ACTION TAKEN BY OPEN MARKET POLICY CONFERENCE AT ITS MEETING IN WASHINGTON ON WEDNESDAY AFTERNOON, APRIL 29, 1931.

After consideration of the memorandum presented by the chairman, and following a long discussion of the present business, banking, and credit situations, both national and international, it was

VOTED that pending another meeting of the conference, as soon as that may be deemed necessary by the Federal Reserve Board or the members of the conference, the executive committee of the conference should be authorized, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of government securities.

333.-C-1

May 7, 1931

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

Carded

Dear Governor Harrison:

As I advised you over the telephone, the Federal Reserve Board at its meeting this morning considered the report of action taken by the Open Market Policy Conference, on April 29, 1931, reading as follows:

"After consideration of the memorandum presented by the Chairman, and following a long discussion of the present business, banking and credit situation, both national and international, it was voted that pending another meeting of the Conference, as soon as that may be deemed necessary by the Federal Reserve Board or the members of the Conference, the Executive Committee of the Conference should be authorized, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of Government securities".

The Board has voted to approve the request that the Executive Committee of the Open Market Policy Conference be authorized, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of Government securities.

Very truly yours,

Eugene Meyer,
Governor

333.C-1

Vote taken by Open Market Policy Conference on Wednesday afternoon, April 29, 1931:

"After consideration of the memorandum presented by the Chairman, and following a long discussion of the present business, banking and credit situation, both national and international, it was voted that pending another meeting of the Conference, as soon as that may be deemed necessary by the Federal Reserve Board or the members of the Conference, the Executive Committee of the Conference should be authorized, if and when it appears to them necessary or advisable, to purchase up to $100,000,000 of Government securities".

apprvd
AT BOARD MEETING.
MAY 7 - 1931

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

333.C-1

Date February 7, 1931

To Governor Meyer

Subject:

From Mr. McClelland

2—8495

In a telegram, dated February 5th, from the Chairman of the Federal Reserve Bank of Richmond, advice was given that the Bank, for the present, will not participate in further purchases of acceptances made by the Open Market Policy Conference for System Account.

During a telephone conversation with Mr. Hoxton this morning, I made inquiry as to the reason for this action and he stated that his Directors unanimously felt that the bill rate of the System is too low and that, under present conditions, the market should be allowed to take any bills which are offered.

#5

COPY

~~333-2-12~~

~~333-1~~
333.-C-1

February 6, 1931.

Dear Mr. Hoxton:

At the meeting of the Board this morning, there being no objection, it was noted with approval from your telegram of February 5th that the Board of Directors of your bank, at its meeting on that date, made no change in your existing schedule of rates of discount and purchase.

It has also been noted that for the present, the Federal Reserve Bank of Richmond will not Participate in further purchases of acceptances made by the Open Market Policy Conference for System account.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Mr. W. W. Hoxton, Chairman,
Federal Reserve Bank,
Richmond, Virginia.

cc: Mr. Smead,
Mr. Goldenweiser.

File copy filed
332.03(5)

Copy

333.C-1
2/5/31

TELEGRAM

FEDERAL RESERVE SYSTEM.
(Leased wire Service)

Received at Washington, D. C.

39rhot

Richmond 1220p Feb 5 1931

Meyer

Washington

Marsoon minimum rate on bankers acceptances last reported to the Board is not changed but this bank for present will not participate in further purchases of bills by open market committee

Hoxton

1220p

Without objection
noted with appl
At Board Meeting.

Orig. filed 332.03(5)

333.-C-1

FEDERAL RESERVE BANK

OF NEW YORK

February 2, 1931.

Sirs:

Receipt is acknowledged of your letter dated January 29, 1931, addressed to Governor Harrison advising that the Federal Reserve Board has voted to approve the report submitted by the Open Market Policy Conference on January 21, with the amendment referred to therein.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Deputy Governor

Federal Reserve Board,
Washington, D. C.

WRB.H

FEB - 3 1931 AM
WASHINGTON

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

333.-C-1

Date January 30, 1931

To Governor Meyer

Subject:

From Mr. McClelland

Mr Carpenter

See 1-27-31

2—8495

If the attached draft of a letter to the Chairman of the Open Market Policy Conference, prepared in accordance with action taken at the meeting yesterday, is satisfactory to you, it will be submitted for approval at the next meeting of the Board.

OK EM

cms

EMJ.

Formally apprd.

AT BOARD MEETING

FEB 1931

appd. by Mr. Miller over telephone

January 29, 1931

Mr. George L. Harrison, Chairman,
Open Market Policy Conference,
c/o Federal Reserve Bank,
New York, New York.

Carded

Dear Governor Harrison:

The Federal Reserve Board has considered the report submitted by the Open Market Policy Conference on January 21st, reading as follows:

"The Conference has considered the preliminary memorandum submitted by the Chairman and has reviewed business and credit conditions as they now appear. It is the sense of the Conference that in view of these conditions it should be the policy of the System to continue an easy money policy in the best interests of trade and commerce. It is the belief of the Conference, however, that the seasonal return flow of money and credit and other factors have tended during recent weeks to make for an undue excess of funds in the principal money centers. It is, therefore, the opinion of the Conference that in these circumstances it would be desirable to dispose of some of the System's holdings of Government securities as and when opportunity

see ans 2/2/31

affords itself to do so without disturbance or any <u>undue</u> tightening of the money position.

"It is understood that there shall be another meeting of the Conference as soon as or whenever conditions in the opinion of the Conference or the Federal Reserve Board justify a reconsideration of this policy."

While the report was submitted subject to verbal or minor correction, it is understood from you that the only change to be made therein is the elimination of the word "undue" underscored above.

In considering this report, the Federal Reserve Board has also taken into consideration the discussion which followed its presentation at the joint meeting of the Open Market Policy Conference and the Board on January 21st and, in the light of that discussion, has voted to approve the report with the amendment above referred to.

By Order of the Federal Reserve Board.

Very truly yours,

E. M. McClelland,
Assistant Secretary

DECLASSIFIED
Authority EO 12356 3.3

333-C-1

CONFIDENTIAL

January 21, 1931.

See 333.31 OMPC 1-21-31

The Conference has considered the preliminary memorandum submitted by the Chairman and has reviewed business and credit conditions as they now appear. It is the sense of the Conference that in view of these conditions it should be the policy of the System to continue an easy money policy in the best interests of trade and commerce. It is the belief of the Conference, however, that the seasonal return flow of money and credit and other factors have tended during recent weeks to make for an undue excess of funds in the principal money centers. It is, therefore, the opinion of the Conference that in these circumstances it would be desirable to dispose of some of the System's holdings of Government securities as and when opportunity affords itself to do so without disturbance or any (undue) tightening of the money position.

It is understood that there shall be another meeting of the Conference as soon as or whenever conditions in the opinion of the Conference or the Federal Reserve Board justify a reconsideration of this policy.

(Subject to verbal or minor correction when minutes are finally prepared)

See Minutes
AT EXECUTIVE COMMITTEE MEETING
JAN 29 1931

January 21, 1931.

The Conference has considered the preliminary memorandum submitted by the Chairman and has reviewed business and credit conditions as they now appear. It is the sense of the Conference that in view of these conditions it should be the policy of the System to continue an easy money policy in the best interests of trade and commerce. It is the belief of the Conference, however, that the seasonal return flow of money and credit and other factors have tended during recent weeks to make for an undue excess of funds in the principal money centers. It is, therefore, the opinion of the Conference ~~that~~ in the circumstances it would be desirable to dispose of some of the System's holdings of Government securities as and when opportunity affords itself to do so without disturbance or any undue tightening of the money position.

It is understood that there shall be another meeting of the Conference as soon as or whenever conditions in the opinion of the Conference or the Federal Reserve Board justify a reconsideration of this policy.

(Subject to verbal or minor correction when minutes are finally prepared)

P.M. file

333.-C-1

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

January 15, 1931.

MEMORANDUM FOR THE BOARD:

"Governor Harrison rang me up and told me that at the meeting of the Board of the Federal Reserve Bank of New York held today it was decided to gradually dispose of almost all, if not all, of the $40,000,000 of bonds bought in December from one of the member banks, as the market could absorb them.

He reported that money was very easy in the open market and that acceptances were down to 1½% for short time dates and that the Bank would reduce the 15 day rate 1/8 tomorrow morning.'

Eugene Meyer

Governor.

Submitted At meeting

see memo to Board 12/30/30