Form F. R. 567

END SHEET

KIND OF MATERIAL OR NUMBER 333.-c-2

NAME OR SUBJECT Open Market Policy Conference Meetings
Open Market Operations

DATES (Inclusive) Jan - Jul 1933

PART NUMBER Part 4

333.-C-2

October 11, 1933.

Mr. W. Randolph Burgess, Secretary,
Federal Open Market Committee,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Burgess:

Receipt is acknowledged of your letter of October 4, 1933, addressed to Governor Black, inclosing copies of the revised minutes of the meeting of the executive committee of the Open Market Policy Conference on June 29, 1933, and of the Federal Open Market Committee on July 20, 1933.

6-29-33 filed Final Minutes 333.-C-2

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

SRC/rkt

CM

FILE COPY

~~Mr Morrill~~
Mr Carpenter

FEDERAL RESERVE BANK

OF NEW YORK

OCT 5 1933

10/9/33

333.-C-2

CONFIDENTIAL October 4, 1933.

Dear Governor Black:

I am enclosing revised minutes of the executive committee meeting of June 29 and of the Open Market Committee meeting of July 20, to be substituted for the preliminary drafts which you have previously received.

Filed Final Minutes 333.-C-2

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Secretary, Federal
Open Market Committee

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

WRB.H
encl.

See ans 10/11/33

Mr. Thompson

333.-C-2

JUL 27 1933

Mr. W. Randolph Burgess, Secretary,
Federal Open Market Committee,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Burgess:

Reference is made to your letter of June 30, 1933, addressed to Governor Black, with which you inclosed a copy of a tentative draft of the minutes of the meeting of the executive committee of the Open Market Policy Conference, held in New York on June 29, 1933.

Governor Black has requested me to advise you that he has no suggestions to make as to changes in the draft.

Very truly yours,

Chester Morrill,
Secretary.

SRC-jcb

Appd

JUL 28 1933

For Approval
Gov. Black
Mr. Hamlin
Mr. James
Mr. Miller absent
Mr. Szymczak
Mr. Thomas
Mr. O'Connor

FILE COPY

Separate Ms. ...
Return to Mr. Carpenter

RECEIVED
JUL 1 1933
OFFICE OF THE GOVERNOR
FEDERAL RESERVE BOARD

333.-C-2

FEDERAL RESERVE BANK
OF NEW YORK

June 30, 1933.

Dear Governor Black:

Enclosed herewith is a tentative draft of the minutes 6-29-33 of the meeting of the Executive Committee of the Open Market Policy Conference held in New York yesterday, together with copies of the Report of Operations and the Preliminary Memorandum on Credit Conditions.

I should be glad to receive at your early convenience any suggestions you may have for changes in these minutes.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Secretary, Open Market
Policy Conference

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

WRB/H
encl.

See ans 7/27/33

June 29, 1933.

333-C-2

PRELIMINARY MEMORANDUM FOR THE EXECUTIVE COMMITTEE
OF THE OPEN MARKET POLICY CONFERENCE, JUNE 29, 1933.

Since open market purchases were resumed in the statement week beginning May 17, the System has purchased $139,000,000 of government securities. These purchases have not resulted in any increase in the total amount of Federal reserve credit outstanding, but, on the contrary, there has been a small decline due to further reductions in member bank borrowing and the virtual elimination of the System's bill holdings through maturities as shown in the following table.

(In millions of dollars)

	May 17	June 28	Change
U. S. securities	1,837	1,976	+ 139
Discounts	330	215*	- 115
Bills	78	8*	- 70
Other securities	5	3*	- 2
Total bills and securities	2,250	2,202	- 48

*June 27

While the total volume of Federal reserve credit has not increased there has, nevertheless, been an increase in the excess reserves held by member banks. The following table shows the excess reserves of the principal New York City banks and all member banks.

(In millions of dollars)

	New York City Banks	All Member Banks
May 17	84	311
" 24	166	376
" 31	111	335
June 7	89	358
" 14	125	410
" 21	49	349
" 28	70 estimated	475 estimated

The general tendency toward an increase in excess reserves has been due principally to a return of currency from hoarding at the rate of about $25,000,000 a week, despite additional requirements for currency due to increased business activity and higher prices.

The diminished excess reserves in New York and increased excess reserves in other centers is due to a transfer of funds out of New York following the enactment of the Glass Bill providing for the termination of interest on demand deposits. After the passage of that Act New York City banks lost $420,000,000 of demand deposits, of which about $215,000,000 consisted of deposits of out-of-town banks. There has been some evidence of cessation of these withdrawals in the past few days, though it remains to be seen whether they will be resumed again. A considerable amount of the funds withdrawn by out-of-town banks, and other deposits as well, was employed by depositors in the purchase of government securities, bankers bills, or other securities.

Although the excess reserves in New York City have been considerably reduced recently there has been no evidence of greater firmness in money largely because of continued large excess reserves elsewhere and a tendency for depositors to employ their money.

While the demands upon the money market may be expected to increase somewhat over June 30 and the Fourth of July holiday, a return flow of currency is to be expected after that time, together with a reduction of Treasury balances in the Reserve banks. It remains to be seen, however, what further shifting of deposits may take place.

333.-C-2

TENTATIVE DRAFT - SUBJECT TO CHANGE

CONFIDENTIAL

MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE
OPEN MARKET POLICY CONFERENCE,
IN NEW YORK - JUNE 29, 1933

The meeting was called to order at 11:10 a. m., there being present

Governor Harrison, chairman, Governors Young and Fancher, and
Deputy Governors Hutt, McKay, and Burgess (secretary) and
Dr. J. H. Williams (of the New York bank)

The preliminary memorandum and the report of operations were distributed, and after discussion accepted.

Governor Harrison reviewed recent open market operations carried on under action of the Open Market Policy Conference at its meeting on April 22, as modified later.

Governor Black entered the meeting at this point.

In a discussion of future policy Governor Harrison indicated that with the return flow of currency after the July 4 holiday it seemed possible that excess reserves might increase to the neighborhood of $500,000,000. A situation would thus be created which would provide some justification from a technical point of view for tapering off purchases of government securities. On the other hand the psychological effect of the continuance or discontinuance of purchases needed careful consideration, particularly as they might be related to movements in the foreign exchanges or any steps which might or might not be taken toward stabilization of the dollar. The increase in prices and in business activity required some continued support until it became more firmly established. If the impetus which has arisen from the instability of the dollar in foreign exchange should be removed, it might be desirable to increase purchases of government securities, in accordance with the suggestion made by Governor Black at the meeting on May 23.

There ensued a discussion of the desirable policy to be pursued in the current week, and at the conclusion of this discussion it was moved and carried that purchases of approximately $20,000,000 be made in the current week. It was agreed that these purchases should be made for delivery on Thursday and Friday, June 29 and 30, in order to provide the market with funds to avoid any stringency over the end of the half year. It was also agreed that it would be unwise to reach any definite decision beyond the current week because of the great uncertainties as to the position of the dollar and other influences affecting business activity.

Governor Harrison then reviewed briefly his discussions in London and the present situation with respect to plans for monetary stabilization.

There was also a discussion of the policy to be pursued in keeping open licensed member banks, Governor Black stating that it was the Administration's policy to make the utmost effort to keep open all licensed member banks.

The meeting adjourned at 12:15 p. m.

W. R. Burgess,
Secretary.

333.-C-2

CONFIDENTIAL

REPORT OF OPEN MARKET OPERATIONS TO MEETING OF EXECUTIVE COMMITTEE OF OPEN MARKET POLICY CONFERENCE HELD IN FEDERAL RESERVE BANK OF NEW YORK, JUNE 29, 1933

At the time of the last meeting of the Executive Committee of the Open Market Policy Conference held in Washington on May 23, 1933, the total holdings of United States Government securities in the System Special Investment Account were - - - - - - - - - - - - - $1,629,399,500.

Under authority of resolutions adopted at the meeting of the Open Market Policy Conference on April 22, 1933, later amended by telegraphic vote, approved by the Federal Reserve Board on May 12, and by agreement of the Executive Committee, purchases of short-term United States Government securities were made for the System Account, since the May 23 meeting, as follows:

		May	24	$ 25,000,000
Week	ended	"	31	28,000,000
"	"	June	7	22,000,000
"	"	"	14	20,550,000
"	"	"	21	22,300,000
"	"	"	28	20,900,000
Total Purchases				$138,750,000

These purchases increased the amount of total holdings in the System Account to - $1,768,149,500.

Other transactions effected in the System Account since the May 23 meeting consisted of

(1) Redemptions of $127,600,000 aggregate amount of Treasury bills matured May 24 to June 28 inclusive, which were replaced by purchases in the market of a like amount of short-term issues of government securities.

(2) Exchange at maturity, by exchange subscription, of $83,925,000 - 1 1/2% certificates of indebtedness matured June 15, 1933, for a like amount of 3/4% certificates of indebtedness due March 15, 1934.

(3) Exchange in the market of $27,000,000 aggregate amount of short-term issues of government securities for a like amount of other short-term issues of government securities.

(4) Sale to foreign correspondent of $16,550,000 Treasury bills due August 30 (to complete order for $35,000,000 Treasury bills maturing not later than August 30) which was replaced by purchase in the market of a like amount of short-term issues of government securities.

The following is a statement of the issues of United States Government securities held in the System Account on May 23, 1933, and on June 28, 1933:

				May 23, 1933	June 28, 1933
U. S. Treas. Bills	due May	24,	1933	$ 41,000,000	$ 0
" " " "	" "	31,	1933	17,500,000	0
" " " "	" June	7,	1933	33,150,000	0
" " " "	" "	21,	1933	11,350,000	0
" " " "	" "	28,	1933	24,250,000	0
" " " "	" July	5,	1933	4,738,000	10,213,000
" " " "	" "	12,	1933	31,000,000	31,400,000
" " " "	" "	19,	1933	2,650,000	2,925,000
" " " "	" "	26,	1933	42,900,000	43,100,000
" " " "	" Aug.	9,	1933	7,500,000	7,500,000
" " " "	" "	16,	1933	7,500,000	7,600,000
" " " "	" "	23,	1933	0	12,500,000
" " " "	" "	30,	1933	0	28,950,000
" " " "	" Sept.	6,	1933	0	18,500,000
" " " "	" "	20,	1933	0	20,830,000
" " " "	" "	27,	1933	0	19,270,000
1 1/2% Cert. of Ind.	" June	15,	1933	83,925,000	0
4 % " " "	" Aug.	15,	1933	51,655,000	62,405,000
1 1/4% " " "	" Sept.	15,	1933	200,533,000	187,433,000
3/4% " " "	" Dec.	15,	1933	85,454,000	87,254,000
4 1/4% " " "	" "	15,	1933	75,770,000	101,020,000
3/4% " " "	" Mar.	15,	1934	0	114,225,000
3 % Treas. Notes	" May	2,	1934	101,587,000	106,287,000
2 1/8% " "	" Aug.	1,	1934	137,527,000	142,477,000
3 % " "	" June	15,	1935	91,277,000	95,577,000
2 7/8% " "	" Apr.	15,	1936	75,537,500	113,987,500
3 1/4% " "	" Aug.	1,	1936	25,892,000	31,892,000
2 3/4% " "	" Dec.	15,	1936	61,743,000	72,943,000
3 % " "	" Apr.	15,	1937	25,225,000	33,025,000
3 1/4% " "	" Sept.	15,	1937	36,750,000	55,650,000
2 5/8% " "	" Feb.	1,	1938	19,570,000	23,070,000
2 7/8% " "	" June	15,	1938	0	2,500,000
3 1/2% First L/L Bds.	of 1932/47			25,025,000	25,025,000
4 1/4% " " "	" 1932/47			29,000,000	29,000,000
4 1/4% Fourth " "	" 1933/38			281,591,000	281,591,000
				$1,629,399,500	$1,768,149,500

Attached Exhibit "A" shows the holdings of government securities in the System Account, by maturities, at the close of each month during 1932-33.

Participations and Outright Holdings of United States Government Securities

The Federal Reserve Bank of Dallas repurchased the $5,000,000 of its participation in government securities in the System Account which had been taken over temporarily into the Federal Reserve Bank of New York's participation on April 28, 1933, as follows:

May 25	$2,500,000
June 16	2,500,000
	$5,000,000

The following is a statement showing the amount of each Federal Reserve Bank's participation in the purchases made for System Account since May 23, and in the total holdings in the Account on June 28, 1933, and each Federal Reserve Bank's holding ratio, i. e., the ratio percentage that each Federal Reserve Bank's holdings in the Account bear to the total holdings in the Account; also, the amount of each Federal Reserve Bank's outright holdings of United States Government securities at the close of business June 21, 1933.

	Participation in New Purchases	Participation in Total Holdings	Holding Ratios	Outright Holdings
Boston	$ 16,194,500	$ 108,599,500	6 1/4%	$ 705,450
New York	25,655,000	629,165,000	35 1/2%	120,296,550
Philadelphia	5,717,500	139,506,000	8 %	3,352,100
Cleveland	5,891,000	182,431,000	10 1/4%	0
Richmond	8,208,500	56,357,500	3 1/4%	0
Atlanta	5,958,000	54,583,000	3 %	353,200
Chicago	48,106,000	241,821,500	13 3/4%	62,736,000
St. Louis	7,166,500	72,498,000	4 %	500,000
Minneapolis	1,932,000	49,156,000	2 3/4%	7,147,150
Kansas City	5,247,000	61,495,500	3 1/2%	171,600
Dallas	0	38,939,500	2 1/4%	10,000,000
San Francisco	8,674,000	133,597,000	7 1/2%	0
Totals	$138,750,000	$1,768,149,500	100 %	$205,262,050

System Purchases of Bankers Acceptances

The amount of bankers acceptances purchased by the System, since the May 23 meeting, has been negligible and no purchases or allotments were made by the Federal Reserve Bank of New York.

EXHIBIT "A"

MATURITIES OF HOLDINGS IN SYSTEM ACCOUNT
END OF EACH MONTH - 1932-33
(In Millions of Dollars)

1932	Within Six Months	Per-cent	Within One Year	Per-cent	Within Two Years	Per-cent	3-5 Years Inc.	Per-cent	Call-able Bonds	Per-cent	Totals
Jan.	$165	29	$ 355	63	$ 355	63	-	-	$212	37	$ 567
Feb.	191	32	375	64	375	64	-	-	212	36	587
Mar.	299	44	475	69	475	69	-	-	212	31	687
Apr.	583	57	778	76	779	76	-	-	239	24	1,018
May	716	51	1,058	75	1,115	79	-	-	290	21	1,405
June	744	48	1,106	71	1,173	75	64	4	322	21	1,559
July	733	45	1,098	67	1,167	71	132	8	336	21	1,635
Aug.	622	38	1,029	63	1,194	73	110	6	336	21	1,640
Sept.	606	37	998	61	1,170	71	134	8	336	21	1,640
Oct.	651	40	1,051	64	1,229	75	75	4	336	21	1,640
Nov.	765	47	1,046	64	1,227	75	77	4	336	21	1,640
Dec.	779	48	1,021	62	1,203	73	101	6	336	21	1,640
1933											
Jan.	644	41	903	58	1,107	71	116	7	336	22	1,559
Feb.	577	36	856	53	1,090	67	203	12	336	21	1,629
Mar.	709	44	856	53	1,090	67	203	12	336	21	1,629
Apr.	570	35	725	45	958	59	335	20	336	21	1,629
May	543	32	823	49	962	57	384	23	336	20	1,682
June	641	36	861	49	1,099	62	333	19	336	19	1,768

Mr. Walter

333.-C-2

JUL 8, 1933

Mr. W. Randolph Burgess, Secretary,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Burgess:

Receipt is acknowledged of your letter of June 28, 1933, inclosing copies of the revised min- (Final Minutes 333.-C-2 utes of the meeting of the Open Market Policy Conference on April 22, and of the meeting of the Executive Committee of the Conference on May 23, 1933.

It is noted that while the last paragraph of the minutes of the meeting on April 22 has been changed somewhat, the last portion of the suggestion contained in the Board's letter of May 18 was not adopted.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary

SRC-jcb

Approved

Szymczak

FILE COPY

FEDERAL RESERVE BANK

OF NEW YORK

June 28, 1933.

Dear Governor Black:

We are sending you herewith revised minutes of the Open Market Policy Conference meeting held on April 22, 1933, and of the executive committee meeting held on May 23, 1933. Will you please substitute these for the preliminary drafts previously sent you.

5/23/33 filed
Final Minutes
333.-C-2

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess,
Secretary, Open Market
Policy Conference.

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

Enc.

see ans 7/8/33

333.

Miller
Goldenweiser

June 3, 1933.

Dr. W. Randolph Burgess,
Federal Reserve Bank,
New York, N. Y.

Dear Doctor Burgess:

I thank you for your letter of June 1, inclosing preliminary draft of the minutes of the Executive Committee of the Open Market Policy Conference held in Washington on May 23. In response to your request for suggestions, the following are submitted:

On pages 1 and 2, where reference is made to the Federal Reserve Board's approval of the resolution adopted at the meeting of the Open Market Policy Conference on April 22nd, substitute the following language for that now used:

Page 1: "Governor Harrison referred to the fact that the Federal Reserve Board's approval of purchases of United States Government securities by the Executive Committee of the Open Market Policy Conference up to an aggregate of $1,000,000,000 was broader in scope than the resolution adopted at the last meeting of the Conference on April 22, ***".

Page 2: "It was pointed out that this action, if approved by the Conference, would enlarge the powers of the Committee to conform to the broader action of the Federal Reserve Board in approving purchases of United States Government obligations without the limitation as to Treasury requirements".

On page 2, substitute the following at the end of the last complete paragraph, beginning immediately after the statement made by Governor Young:

FILE COPY

"Governor Black advised the members of the Committee that he was inclined to believe that a larger amount of securities - possibly $100,000,000 or $200,000,000 - should be purchased, when there was more evidence of a real need therefor. He inquired whether, if the present improvement in business activities and prices should fall off seriously, the Committee would then be in favor of heavy purchases of securities. Members of the Committee expressed the view that they would be in favor of such purchases under such circumstances. Governor Black then stated that in consideration of the views expressed at this meeting, as to the possible advantages of prompt action, he was agreeable to the proposal to buy $25,000,000 of securities this statement week, with the understanding that, if need for more vigorous action develops, such action will be taken promptly."

With my warm regards, I am

Sincerely yours,

Governor.

EMM/vmt

FILE COPY

FEDERAL RESERVE BANK

OF NEW YORK

333-C-2

CONFIDENTIAL June 1, 1933.

Dear Governor Black:

I am enclosing herewith preliminary draft of the minutes of the meeting of the executive committee of the Open Market Policy Conference held in Washington on May 23, together with the secretary's report and the preliminary memorandum which were presented to that meeting.

I shall be glad to have at your early convenience any suggestions you may have for changes in these minutes.

Very truly yours,

W. Randolph Burgess
W. Randolph Burgess,
Secretary, Open Market
Policy Conference.

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

Enc.

6/3/33

333.-C-2

TENTATIVE DRAFT - SUBJECT TO CHANGE

CONFIDENTIAL

MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE

OPEN MARKET POLICY CONFERENCE - MAY 23, 1933

A meeting of the Executive Committee of the Open Market Policy Conference was called in Washington at Governor Black's office on Tuesday, May 23, at 11 a.m. There were present:

Governor Harrison, Chairman,
Governors Young, Norris, Fancher
and McKay, and
Governor Black.

Governor Harrison called attention to the fact that because of Governor Black's appointment to the Federal Reserve Board, there was a vacancy on the Executive Committee of the Open Market Policy Conference and that with the approval of the other members of the Committee he had invited Governor Fancher to serve in Governor Black's place pending another meeting of the Open Market Policy Conference.

Governor Harrison then presented to the Committee the secretary's report of operations and a preliminary memorandum on credit conditions which was read and discussed in some detail. Governor Harrison referred to the fact that the Federal Reserve Board's approval of the resolution adopted at the last meeting of the Open Market Policy Conference on April 22 was broader in scope than the resolution itself, and stated that Governor Black had requested him to take up with all of the members of the Conference in some appropriate fashion the question whether or not the authority given to the Executive Committee by the resolution passed at the last meeting of the Conference might not be extended. After discussion it was voted unanimously to be the sense of the Executive Committee that the authority given to the Executive Committee at the last meeting of the 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. It was pointed out that this action, if approved by the Conference, would enlarge the powers of the Committee to conform to the broader action of the Federal Reserve Board in approving the resolution of the Conference without limitation as to Treasury requirements.

Governor Black expressed himself as being in agreement with this action by the Executive Committee.

The Committee then discussed the general situation in the light of the preliminary memorandum with a view to ascertaining whether or not it would be advisable to initiate some purchases of government securities at this time. After discussion it was unanimously voted that the Committee should purchase $25 million of government securities this statement week provided a majority of the Open Market Policy Conference approved of the proposed extension of authority to the Executive Committee. Governor Young explained that his vote was predicated on the assumption that the Treasury would approve this action. Governor Black asked whether, if the present improvement in business activity and prices should fall off seriously, the Committee would then be in favor of heavy purchases of securities. Members of the Committee expressed the view that they would be in favor of such purchases in such circumstances. Governor Black said that he was in favor of the proposal to buy $25 million securities this statement week, and would be in sympathy with large purchases in the event that there is any noticeable falling off in business improvement.

Governor Black advised the Committee, prior to the final action on the resolution to purchase government securities, about proposed legislation to eliminate the so-called gold clause from new issues of government securities.

He showed the Committee a memorandum prepared by the Treasury on this subject and stated that the Treasury and Administration were in favor of the bill. At this point Secretary Woodin joined the meeting. Governor Harrison advised the secretary that the Committee had voted to purchase $25 million of securities this statement week, but that one of the members of the Committee wanted to be informed of the views of the Treasury with respect to such a program. Secretary Woodin stated that he and the Treasury would have no opposition to open market operations, but he felt, as did a majority of the Committee, that there is no necessity for Treasury approval of the proposal.

At the request of Governor Black each member of the Executive Committee then expressed his opinions regarding: (1) the proposed open market operations; (2) the problem of keeping open licensed member banks; and (3) liberalization of membership requirements in the Federal Reserve System. During the course of this discussion it appeared to be the unanimous opinion that one of the most important problems now before the system is to devise a procedure or program for keeping open all member banks which have been licensed to open. To accomplish this, either the Federal reserve banks should have some legal protection against losses on account of liberal 10(b) loans made for the purpose of keeping member banks open, or else the Reconstruction Finance Corporation Act should be amended so as to make it possible for the R. F. C. to advance sufficient funds to keep open any member bank that had been licensed to open. If this were done, and membership requirements in the Federal Reserve System were liberalized, and prompt action taken upon the applications of sound state banks for membership, it was felt that it would be possible adequately to take care of all sound banks either through liberal 10(b) loans by the Federal reserve banks, or by loans through the R. F. C. Governor Black reported steps which were being taken designed to handle these problems, but stated that there might be difficulty in obtaining the requisite amendments to the law.

During the course of the discussion it was pointed out that various governmental agencies had substantially different yardsticks for appraising loan values and that it would be helpful were a more uniform basis of appraising values arrived at. There was also some feeling that the office of the Comptroller of the Currency was becoming more strict rather than more liberal in the reopening of closed banks and that the present regulations of the Federal Reserve Board regarding the admission of state banks to membership in the system are probably more strict than present circumstances require.

George L. Harrison,
Chairman.

CONFIDENTIAL

REPORT OF OPEN MARKET OPERATIONS TO MEETING OF EXECUTIVE COMMITTEE OF THE OPEN MARKET POLICY CONFERENCE HELD IN WASHINGTON MAY 23, 1933

There has been no change in the amount of total holdings of United States Government securities in the System Special Investment Account since the last meeting of the Open Market Policy Conference held in Washington on April 19, 1933, the total remaining at - $1,629,399,500.

Transactions effected in the System Account since the report to the April 19 meeting consisted of:

(1) Redemptions of $112,500,000 aggregate amount of maturing Treasury bills and $50,000,000 2% certificates of indebtedness matured May 2, 1933, which were replaced by purchase in the market of $162,500,000 aggregate amount of short-term issues of government securities.

(2) Exchange at maturity, by exchange subscription, of $25,337,500 - 2% certificates of indebtedness matured May 2, 1933, for a like amount of 2 7/8% Treasury notes due April 15, 1936.

(3) Exchanges in the market, of $38,559,500 aggregate amount of short-term issues of government securities for a like amount of other short-term issues of government securities.

The following is a statement of the issues of United States Government securities held in the System Account on April 12, 1933 and on May 20, 1933.

			April 12, 1933	May 20, 1933
U. S. Treas. Bills	due Apr.	19, 1933	$ 29,000,000	$ 0
" " " "	" "	26, 1933	31,100,000	0
" " " "	" May	10, 1933	16,100,000	0
" " " "	" "	17, 1933	36,300,000	0
" " " "	" "	24, 1933	41,000,000	41,000,000
" " " "	" "	31, 1933	17,500,000	17,500,000
" " " "	" June	7, 1933	33,150,000	33,150,000
" " " "	" "	21, 1933	11,000,000	11,350,000
" " " "	" "	28, 1933	23,550,000	24,250,000
" " " "	" July	5, 1933	0	4,738,000
" " " "	" "	12, 1933	31,000,000	31,000,000
" " " "	" "	19, 1933	0	2,650,000
" " " "	" "	26, 1933	0	42,900,000
" " " "	" Aug.	9, 1933	0	7,500,000
" " " "	" "	16, 1933	0	7,500,000
2 % Cert. of Ind.	" May	2, 1933	79,397,000	0
1 1/2% " " "	" June	15, 1933	116,425,000	83,925,000
4 % " " "	" Aug.	15, 1933	43,155,000	51,655,000
1 1/4% " " "	" Sept.	15, 1933	200,533,000	200,533,000
3/4% " " "	" Dec.	15, 1933	78,104,000	83,454,000
4 1/4% " " "	" "	15, 1933	68,670,000	75,770,000
3 % Treas. Notes	" May	2, 1934	97,025,000	101,587,000
2 1/8% " "	" Aug.	1, 1934	137,527,000	137,527,000
3 % " "	" June	15, 1935	90,477,000	91,277,000
2 7/8% " "	" Apr.	15, 1936	0	75,337,500
3 1/4% " "	" Aug.	1, 1936	12,050,000	25,892,000
2 3/4% " "	" Dec.	15, 1936	27,380,000	61,743,000
3 % " "	" Apr.	15, 1937	24,150,000	25,225,000
3 1/4% " "	" Sept.	15, 1937	32,750,000	36,750,000
2 5/8% " "	" Feb.	1, 1938	16,440,500	19,570,000
3 1/2% First L/L Bds	of 1932/47		25,025,000	25,025,000
4 1/4% " " "	" 1932/47		29,000,000	29,000,000
4 1/4% Fourth " "	" 1933/38		281,591,000	281,591,000
		Totals	$1,629,399,500	$1,629,399,500

On April 28, owing to the low reserve ratio of the Federal Reserve Bank of Dallas, $5,000,000 of its participation in government securities in the System Account was taken over temporarily into the participation in the System Account of the Federal Reserve Bank of New York.

The following is a statement showing the amount of each Federal Reserve Bank's participation in government securities held in the System Account at the close of business May 20, 1933, and each Federal Reserve Bank's holding ratio, i.e., the ratio percentage that each Federal Reserve Bank's total holdings in the

Account bear to the total holdings in the Account; also, the amount of each Federal Reserve Bank's outright holdings of United States Government securities at the close of business May 17, 1933:

	Amount of Participation	Holding Ratios	Outright Holdings
Boston	$ 92,405,000	5 3/4%	$ 706,050
New York	608,510,000	37 1/4%	120,296,500
Philadelphia	133,788,500	8 1/4%	3,352,100
Cleveland	176,540,000	10 3/4%	0
Richmond	48,149,000	3 %	0
Atlanta	48,625,000	3 %	24,400
Chicago	193,715,500	11 3/4%	62,836,000
St. Louis	65,331,500	4 %	500,000
Minneapolis	47,224,000	3 %	7,043,650
Kansas City	56,248,500	3 1/2%	171,600
Dallas	33,939,500	2 %	10,000,000
San Francisco	124,923,000	7 3/4%	0
Totals	$1,629,399,500	100 %	$204,930,300

System Purchases of Bankers Acceptances

The amount of bankers acceptances purchased by the System, since the April 19 meeting, has been negligible and no purchases or allotments were made by the Federal Reserve Bank of New York.

Attached are exhibits showing:

"A" - Classification of Issues held in the System Account as of May 20, 1933, and the percentage of each issue held in the Account as compared with the amount of the respective issue outstanding.

"B" - Maturities of Government Securities held in System Account as of May 20, 1933.

"C" - Approval received from Federal Reserve Board under date of May 12, 1933, authorizing 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.

EXHIBIT "A"

Classification of [illegible]ss Held in the System Accoun[illegible] as [illegible] May 20, 1933
and the Percentage of Each Issue Held in the Account as
Compared with the Amount of the Respective Issue Outstanding
(000 Omitted)

Amount of Issues Held in System Account By Classification		Amount of Respective Issues Outstanding	Percentage of Issues Held to Amount Outstanding
TREASURY BILLS			
U. S. Treasury Bills due May 24, 1933	$ 41,000	$ 60,074	68 1/4%
" " " " " " 31, 1933	17,500	100,613	17 1/2%
" " " " " June 7, 1933	33,150	75,216	44 %
" " " " " " 21, 1933	11,350	100,569	11 1/4%
" " " " " " 28, 1933	24,250	100,158	24 1/4%
" " " " " July 5, 1933	4,738	100,096	4 3/4%
" " " " " " 12, 1933	31,000	75,733	41 %
" " " " " " 19, 1933	2,650	75,188	3 1/2%
" " " " " " 26, 1933	42,900	80,295	53 1/2%
" " " " " Aug. 9, 1933	7,500	75,067	10 %
" " " " " " 16, 1933	7,500	75,442	10 %
TOTALS	$223,538	$918,451	24 1/4%
CERTIFICATES OF INDEBTEDNESS			
1 1/2% Cert. of Ind. due June 15, 1933	$ 83,925	$ 373,856	22 1/2%
4 % " " " " Aug. 15, 1933	51,655	469,089	11 %
1 1/4% " " " " Sept.15, 1933	200,533	451,447	44 1/2%
3/4% " " " " Dec. 15, 1933	83,454	254,364	32 3/4%
4 1/4% " " " " " 15, 1933	75,770	473,328	16 %
TOTALS	$495,337	$2,022,084	24 1/2%
TREASURY NOTES			
3 % Treas. Notes due May 2, 1934	$101,587	$ 244,234	41 1/2%
2 1/8% " " " Aug. 1, 1934	137,527	345,292	39 3/4%
3 % " " " June 15, 1935	91,277	416,603	22 %
2 7/8% " " " Apr. 15, 1936	75,337	572,419	13 1/4%
3 1/4% " " " Aug. 1, 1936	25,892	365,138	7 %
2 3/4% " " " Dec. 15, 1936	61,743	360,533	17 1/4%
3 % " " " Apr. 15, 1937	25,225	508,329	5 %
3 1/4% " " " Sept.15, 1937	36,750	834,401	4 1/2%
2 5/8% " " " Feb. 1, 1938	19,570	277,517	7 %
TOTALS	$574,908	$3,924,466	14 3/4%
LIBERTY LOAN BONDS			
3 1/2% 1st L/L Bds. of 1932-47	$ 25,025	$ 1,392,227	1 3/4%
4 1/4% " " " " 1932-47	29,000	535,983	5 1/2%
4 1/4% " " "" " 1933-38	281,591	6,268,095	4 1/2%
TOTALS	$ 335,616	$ 8,196,305	4 %
GRAND TOTALS	$1,629,399	$15,061,306	10 3/4%

Total of all issues of Treasury Bills, Certificates, Notes and Bonds outstanding $21,096,229. Percentage of issues held in System Account 7 3/4%.

Exhibit "B"

MATURITIES OF GOVERNMENT SECURITIES
HELD IN SYSTEM ACCOUNT AS OF MAY 20, 1933

SHORT-TERM ISSUES

Treasury Bills, Certificates and Notes

MATURING WITHIN 1 YEAR		
Within 3 months	$359,118,000	
3 to 6 "	200,533,000	
6 " 9 "	159,224,000	
9 " 12 "	101,587,000	
TOTAL MATURITIES WITHIN 1 YEAR		$ 820,462,000
MATURING 1 TO 1 1/2 YEARS		137,527,000
MATURING 1 1/2 TO 2 1/2 YEARS		91,277,000
MATURING 2 1/2 TO 3 YEARS		75,337,500
MATURING 3 TO 5 YEARS		169,180,000
		$1,293,783,500

LIBERTY LOAN BONDS

First 3 1/2% Liberty Loan Bonds	$ 25,025,000	
" 4 1/4% " " "	29,000,000	
(Due June 15, 1947 Callable on or after Dec. 15, 1933)		$ 54,025,000
Fourth 4 1/4% Liberty Loan Bonds (Due Oct. 15, 1938 Callable on or after Apr. 15, 1934)		281,591,000
GRAND TOTAL		$1,629,399,500

Exhibit "C"

COPY OF 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.

(Signed) CHESTER MORRILL

May 22, 1933

PRELIMINARY MEMORANDUM FOR THE EXECUTIVE COMMITTEE OF THE OPEN MARKET POLICY CONFERENCE, MAY 23, 1933 333-C-2

During the past month there has been a considerable further increase in business activity, a strong rise in commodity and security prices, and a further improvement in the banking situation. Indications of the extent of the rise in business activity and in prices are given in the following table:

	1933 Low	Latest	Per cent change
Industrial production - - - - - - - - - - - (F. R. Board monthly index)	60 (Mar.)	66 (April)	+ 10
Merchandise and miscellaneous carloadings (F. R. Bank of N. Y. weekly index)	46.1 (Mar.)	54.1 (May 13)	+ 17
Wholesale prices of 285 commodities - - - (F. R. Board weekly index)	59.6 (Mar.)	63.2 (May 12)	+ 6
Wholesale prices of 15 basic commodities- (Moody's daily index)	78.7 (Feb.)	116.0 (May 18)	+ 47
Prices of 90 stocks - - - - - - - - - - - - (Standard Statistics Co. daily index)	43.9 (Feb.)	68.7 (May 20)	+ 56
Bond prices			
U. S. Government bonds - - - - - - - - - (F. R. Bank of N. Y. average)	98.8 (Mar.)	102.6 (May 20)	+ 4
Aaa bonds (Moody's average) - - - - - - -	97.8 (Apr.)	103.3 (May 19)	+ 6
A " " " - - - - - - -	72.2 (Apr.)	80.7 " "	+ 12
Baa " " " - - - - - - -	53.3 (Apr.)	67.0 " "	+ 26
B " (F. R. Bank of N. Y. average) -	31.1 (Apr.)	41.8 " "	+ 34

Steel mill operations have considerably more than doubled since the bank holidays and have risen well above a year previous for the first time since 1929. Electric power production also has recently reached a level above that of a year previous for the first time in about three years. The railroad movement of merchandise is now closer to the level of the year previous than at any time since the beginning of the depression. Retail trade also has improved considerably. The relatively favorable comparisons with a year ago are due partly to the downward course of business a year ago, but, in general, business activity appears to have about regained the level of last autumn. The principal industries which have not yet shown a material increase in activity are those dependent upon the investment of new capital, such as the building and industrial equipment industries.

The rise in commodity prices thus far has been largely in the basic commodities such as grain, cotton, rubber, and basic metals. An index of 15 such commoditi is now nearly 50 per cent above the low point of the year, whereas the broad indexes of wholesale commodity prices have risen only about 6 per cent. Basic commodity prices have reached the highest level since the early autumn of 1931, while wholesale commodity prices in general remain close to the lowest levels reached up to the end of 1932. As a result, the gap between basic commodity prices and the general level of wholesale commodity prices has been materially reduced. During the past few days a moderate reaction in commodity prices has occurred.

The Position of Member Banks.

The renewed publication of data on the loans and investments and deposits of selected member banks in principal cities throughout the country shows that besides the substantial recovery in deposits and a renewed increase in loans and investments in New York City, deposits in other cities have increased moderately, and there has been some increase in loans and investments, reversing the tendency of several previous months. These changes are summarized in the following table:

(Millions of dollars)

	New York City		Other Reporting Cities	
	Mar. 8	May 17	Mar. 8*	May 17
Loans				
On securities	1,668	1,735	2,091	1,989
All other	1,453	1,617	3,098	3,080
Total	3,121	3,352	5,189	5,069
Investments				
U. S. securities	2,186	2,378	2,241	2,556
Other securities	1,105	1,117	1,886	1,874
Total	3,291	3,495	4,127	4,430
Total loans and investments	6,412	6,847	9,316	9,499
Deposits				
Net demand	4,481	5,558	4,794	5,123
Time	749	692	3,496	3,579
Total	5,230	6,250	8,290	8,702

*Unpublished data

The increase in deposits reflects to a considerable extent the return flow of currency since the bank holidays, although a part has been the result of additional loans and investments. Funds received through the return of currency have been used largely to retire indebtedness at Federal Reserve Banks, but until a month ago there was also a fairly rapid increase in the reserve balances of member banks. Since the April meeting of the Open Market Policy Conference, however, the growth of member bank reserves has been checked, although currency has continued to flow back to the banks. The reasons for this are indicated in the following table:

(Millions of dollars)

	April 19 to May 17 Gain (+) or Loss (-)
Gain or loss of reserve funds through -	
Reduction in currency outstanding	+ 216
Reduction in "Treasury currency adjusted"	- 13
Increase in foreign balances in F. R. banks	- 11
Net gain	+ 192
Reduction in F. R. discounts	- 84
Reduction in F. R. bills bought	- 131
Reduction in other F. R. credit	- 22
Net loss through reduction in F. R. credit	- 237
Change in member bank reserves	- 45

As this table shows, the reduction in Federal Reserve credit has proceeded somewhat more rapidly during the past month than the gain of funds to member banks from other sources. As a result, member bank balances showed a net decline of $45,000,000 during the past four weeks.

In addition there has been a fairly steady increase in reserve requirements, accompanying the expansion in member bank deposits. For all member banks the increase in reserve requirements during the past month has been in the neighborhood of $75,000,000. Consequently, excess reserves of all member banks, which a month ago were above $400,000,000, have since declined to around $300,000,000. In New York City, excess reserves, which a month ago were around $200,000,000, were nearly wiped out at the beginning of May, and after a renewed flow of funds to New

York remain below $100,000,000.

Prospects for Ensuing Weeks.

During the two weeks ending May 31 most of the remaining dollar acceptances held by the System, about $65,000,000 will mature. The payment of these bills at maturity will tend to reduce member bank reserves, and may result in increased offerings of bills to bill dealers, whose portfolios are now rather large. This might result in a temporary tightening of the money market.

In the week ending May 24 there should be a further return flow of currency to offset the effect of the decline in the System's bill holdings, and in addition there will probably be Treasury expenditures of the free gold which has resulted from making all forms of money legal tender. During the last week of May, however, there is usually some increase in the demand for currency for the month-end and the Decoration Day holiday, which may add to the effect of maturities from Federal Reserve bill holdings in reducing member bank reserves.

Foreign Exchange

A factor of some importance in the rise in prices during the past few weeks has been the decline in the dollar relative to the principal foreign currencies. This appears to have been effective in stimulating prices more because it has seemed to indicate a decline in the value of the currency unit of this country than because of any increase in the actual exports of commodities from this country. In the case of wheat, which is among the commodities that have shown the largest price increases during recent weeks, exports have declined in volume, and in the case of cotton the increase in exports has not been large.

The decline in the dollar relative to foreign currencies appears to have been the result chiefly of movements of capital, rather than of ordinary settlements of balances due between this and other countries. The balance of payments position of this country, exclusive of capital movements, remains favorable, and would ordinarily tend to maintain the dollar in a strong position. During the past ten days the depreciation in the dollar against the principal foreign currencies has diminished somewhat. For the time being at least, therefore, this factor as a stimulus to prices is no longer effective.

The Government Security Market

As the table on the first page of this report shows, there has been a moderate recovery in the market for United States Government bonds following the decline in February and early March, and the same is true of Treasury notes. In the case of Treasury certificates and bills, yields declined rapidly after the abrupt rise during the banking crisis, and have remained at low levels in recent weeks.

The moderate strength of Government obligations recently, in the face of expected large additional issues of Government securities, appears to have been due at least in part to purchases by dealers in anticipation of large operations in Government securities by the Reserve Banks. As the result of these purchases, dealers' portfolios are now at unusually high levels.

333.-C-2

JUL 8 1933

Mr. W. Randolph Burgess, Secretary,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Burgess:

Receipt is acknowledged of your letter of June 28, 1933, inclosing copies of the revised minutes of the meeting of the Open Market Policy Conference on April 22, and of the meeting of the Executive Committee of the Conference on May 23, 1933.

4-22-33 file Final Minutes 333.-C-2

It is noted that while the last paragraph of the minutes of the meeting on April 22 has been changed somewhat, the last portion of the suggestion contained in the Board's letter of May 18 was not adopted.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary

333.-C-2

COPY

FEDERAL RESERVE BANK

OF NEW YORK

June 28, 1933.

Dear Governor Black:

4-22-33 filed

We are sending you herewith revised minutes of the Open Market Policy Conference meeting held on April 22, 1933, and of the executive committee meeting held on May 23, 1933. Will you please substitute these for the preliminary drafts previously sent you.

final Minutes
333.-C-2

Very truly yours,

(Signed) W. Randolph Burgess

W. Randolph Burgess,
Secretary, Open Market
Policy Conference.

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

Enc.

see ans 7/8/33

333.-C-2

FEDERAL RESERVE BANK

OF NEW YORK

June 5, 1933.

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

Dear Mr. Morrill:

I think I have never acknowledged the receipt of the Board's letter of May 18 suggesting a number of changes in the tentative draft of the Minutes of the Open Market Policy Conference held on April 22, 1933. I have noted the contents of this letter and shall endeavor to revise the minutes of the meeting in such fashion as to cover the points raised in your letter.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess,
Deputy Governor.

333.-C-2

MAY 18 1933

Mr. W. R. Burgess, Secretary,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Burgess:

Receipt is acknowledged of your letter of May 8, 1933, transmitting a copy of a tentative draft of the minutes of the meeting of the Open Market Policy Conference in Washington on April 22, 1933. The Board desires to suggest the following substitute for the next to the last paragraph on page 3:

> "At 11:50 a. m. the Open Market Policy Conference met with the Federal Reserve Board. Copies of the three resolutions adopted by the Conference were presented to the Board, and Governor Harrison outlined some of the reasons which prompted the adoption of the resolutions in the form submitted. / In response to an inquiry by Governor Meyer, Governor Harrison stated that the resolutions did not require immediate action by the Board."

Since then, as you probably know, the Board advised Governor Harrison, as Chairman of the Open Market Policy Conference, in a letter dated May 2, 1933,* that the Board was in agreement with the proposal that the executive committee of the Conference work out a new system of allotment of Government securities in the System account, and in a telegram dated May 12,* 1933, that the Board authorized the executive committee of the Conference to proceed with its proposed purchases of Government securities up to an aggregate of $1,000,000,000. Action on the resolution adopted

* Filed
333.-C-1

FILE COPY

see ans 6/5/33

by the Conference with regard to the shifting of maturities of securities held in the System account has been deferred, although, as you know, the matter has been discussed informally.

Very truly yours,

Chester Morrill,
Secretary.

SRC/EMM/CM/acw

For APPROVAL
Gov. Black ✓
Mr. Hamlin
Mr. James
~~Mr. Magee~~
Mr. Miller
Mr. O'Connor

Please initial file copy if you approve and return to Secretary's Office.

Appd

FILE COPY

333.-C-2
5-16-33

Memorandum for Governor Black:

I enclose, for what interest it may have for you, correspondence with the Secretary of the Open Market Policy Conference relating to the recent report of the last conference, on which comments were invited.

George J. Seay,
Governor.

May 16, 1933.

FEDERAL RESERVE BANK OF RICHMOND

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.

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 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.

See copy filed attached to 5-13-33 from Seay 333.-C-1

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.

Misc 126

FEDER. R SERVE BANK OF RI MO ID

May 16, 1933.

Dear Doctor Burgess:

I have your letter of the 15th replying to mine of the 8th relative to the policy of purchasing a huge amount of government securities.

I do not think there is any point to the suggestion or argument of preserving the independence of the Federal Reserve Banks, or System, when it comes to buying three billions of securities, or even one billion, in addition to what we already have. I am quite positive that the conference, or the majority of the conference, if not confronted with the inflation bill and if it did not have to choose between methods of inflation would vote against the purchase of such an extraordinary amount. I do not call that preserving the independence of the Federal Reserve System.

It is not my recollection that the conference favored buying in the market, but rather that it was thought and expressed that, in the carrying out of the policy of the inflation bill, we might also have to buy in the market. And, again, it was brought out in the discussion that buying in the market as it has heretofore been done had the effect of piling up excess balances chiefly in the money centers, although the excess, of course, overflowed to some extent into the country generally, whereas buying directly from the Treasury and having the amounts bought by each Federal Reserve Bank checked out of the several banks by the Treasury for general use would bring about a more general distribution of credit.

Of course we do not know from the beginning to what extent purchases by the System may go; but if government securities are issued to cover all of the purposes which Congress has in mind, the prices of government securities will, of course, suffer, and we as holders of such securities will be likely to suffer by decline, especially if we tone up the market, as you say, in advance by taking securities off the market.

We are very firm here in desiring to have a policy determined in this case by the Federal Reserve Board for the System.

Very truly yours,

GJS-CCP

(Signed) GEORGE J. SEAY,
Governor.

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

Mr. McClelland
Attorney

333.-C-2

FEDERAL RESERVE BANK

OF NEW YORK

May 8, 1933.

Dear Governor Meyer:

4-22-33

I am sending you herewith a tentative draft of the minutes of the meeting of the Open Market Policy Conference held on April 22. These are subject to correction and the final draft will be forwarded later.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Secretary, Open Market
Policy Conference

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

WRB.H
encl.

RECEIVED
MAY 8 1933
OFFICE OF THE GOVERNOR
FEDERAL RESERVE BOARD

Ree ans 5/18/33

333.-C-2

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 minutes
AT EXECUTIVE COMMITTEE MEETING
MAY 1 - 1933
SM

See minutes
EXECUTIVE COMMITTEE MEETING
APR 2 4 1933
SM

See minutes
AT EXECUTIVE COMMITTEE MEETING
APR 2 6 1933
SM

333-C-2

4/22/33

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 minutes
AT EXECUTIVE COMMITTEE MEETING
APR 24 1933

See minutes
AT EXECUTIVE COMMITTEE MEETING
APR 26 1933

9

333.-C-2

Resolution

4/22/33

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 minutes

APR 24 1933

See minutes

AT EXECUTIVE COMMITTEE

APR 26 1933

333.-C-2

4-22-33

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

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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Excerpt - 2

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.

Excerpt - 2

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At 11:50 a.m. the Open Market Policy Conference met with the Federal Reserve Board. Copies of the three resolutions adopted by the Conference were presented to the Board, and Governor Harrison outlined some of the reasons which prompted the adoption of the resolutions in the form submitted. In response to an inquiry by Governor Meyer, Governor Harrison stated that the resolutions did not require immediate action by the Board.

This is as quoted in the Board's letter to Dr. Burgess under date of May 18.

CONFIDENTIAL

TENTATIVE DRAFT OF MINUTES OF MEETING
OF THE OPEN MARKET POLICY CONFERENCE
SATURDAY, APRIL 22, 1933,
WASHINGTON, D. C.

The meeting was called to order at 11 a. m., there being present the following:

Governor Harrison, chairman, and
GovernorsYoung, Norris, Fancher, Seay, Black, Martin,
Geery, Hamilton, McKinney, and Calkins, and
Deputy Governor McKay.

Following completion of the deliberations of the governors conference, a meeting of the open market policy conference was convened to consider what, if any, action should be taken by the conference with a view to giving the executive committee power to function if necessary in the emergency pending another meeting of the conference.

The report of the secretary of the operations in the system account since the last meeting, which had been previously distributed, was received and ordered to be placed on file. The conference then considered the preliminary memorandum which had also been distributed during the course of the governors conference. There was a general discussion of the memorandum and a review of banking and business conditions which had been considered during the course of the governors conference. Particular reference was made to the Thomas Amendment to the Farm Bill giving the President among other powers the right to direct the Secretary of the Treasury to arrange with the Federal reserve banks for the purchase of government obligations up to three billion dollars. As drafted, this provision of the law is not obligatory so far as the Federal reserve banks are concerned. But the conference was generally in agreement that during the period of the emergency it would be ~~necessary~~ advisable for the Federal reserve banks, so far as possible and consistent with their own position and requirements, to cooperate with the Treasury with a view to facilitating any necessary issues of government securities or to support the market for government securities in order to make such public issues possible. The majority of the conference however did not feel that at the present time it would be advisable for the Federal reserve banks to purchase government securities solely for the purpose of increasing member bank reserves. After further discussion and in order that the executive committee might be prepared, if deemed advisable at the time, to purchase government securities with a view to making it possible for the Treasury to meet its requirements, it was

> VOTED to be the sense of the conference that subject to 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 one billion dollars of government securities to meet Treasury requirements.

Deputy Governor McKay of the Federal Reserve Bank of Chicago asked to be recorded as not voting. All the other governors voted in the affirmative.

During the debate on this resolution it was pointed out that this authority, if approved by the Federal Reserve Board, would permit the executive committee to purchase government securities in the market as a means of facilitating public issues of government securities rather than to force the Treasury to seek accommodation directly from the Federal reserve banks. It was understood that a purchase in such circumstances would be with a view to meeting Treasury requirements as specified in the resolution.

The conference then considered the question of the average maturity of the securities held in the system account, it being pointed out that in present circumstances a larger proportion of longer time government securities might not be inappropriate, especially if the exchange of short term securities for longer maturities would facilitate the marketing of government issues when necessary. It was emphasized that it might be possible by shifting various issues in the system account from shorter to longer maturities to promote a better relationship of rates in the government security market and also tone up the market so as to facilitate public issues where otherwise direct recourse to the Federal reserve banks might be sought. After discussion it was unanimously

> VOTED to be the sense of the conference that while as a general principle the average maturity of governments 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 if 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.

In view of the fact that the present emergency might make it necessary or advisable for the Federal reserve banks to acquire further amounts of government securities, it was the belief of the conference that there should be the fullest cooperation on the part of the several Federal reserve banks in reallocating existing and possible future holdings of government securities as between reserve banks. Accordingly, it was unanimously

> VOTED to be the sense of the conference that the executive committee should 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.

It was pointed out that the reallocation of securities between reserve banks might be necessary not only to permit of further purchases of securities by the system but also to enable any Federal reserve bank freely to accommodate its member banks on 10 B loans in cases where large amounts of such loans might be required to keep open licensed member banks in its district.

After the adoption of these resolutions, the Federal Reserve Board joined the conference and each of the resolutions was read to the Board, it being pointed out that the first resolution authorizing the executive committee to purchase up to one billion dollars of government securities would require the approval of the Federal Reserve Board.

At 12:30 the meeting adjourned.

George L. Harrison,
Chairman.

CONFIDENTIAL

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REPORT OF OPEN MARKET OPERATIONS TO MEETING OF OPEN MARKET POLICY CONFERENCE HELD IN WASHINGTON ON APRIL 19, 1933

4/19/33

At the last meeting of the Open Market Policy Conference held in Washington on January 4, 1933, the following resolution was passed by unanimous vote:

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.

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.

In line with this policy, a part of the System's holdings of maturing Treasury bills was redeemed without replacement during the month of January,

#14

as indicated below:

January 11	$35,600,000	from holdings in	System Account
" 11	2,756,000	" " "	F.R.B. Chicago Investment Account
" 18	30,208,000	" " "	System Account
" 18	4,000,000	" " "	F.R.B. New York Investment Account
" 25	15,000,000	" " "	System Account
Total	$87,564,000		

These redemptions reduced the amount of total holdings in the system from $1,850,900,000 to $1,763,311,000, of which amount $1,558,799,500 was held in the Open Market Investment Account and the balance of $204,511,500 in the Investment Accounts of Federal Reserve Banks.

Within the course of the following ten days member bank excess reserves declined to a point below $500,000,000 and in line with the resolution passed on January 4, purchases of short-term issues of Government securities were made in the market for System Account as follows:

Week Ended February 8	$20,600,000
" " " 15	25,000,000
" " " 22	25,000,000
Total	$70,600,000

These purchases increased the amount of total holdings in the System Account from $1,558,799,500 to $1,629,399,500, which figure has been maintained since February 22, 1933.

Other transactions effected in the System Account since the report to the January 4 meeting consisted of:

(1) Redemptions of $288,300,000 aggregate amount of maturing Treasury Bills and $5,234,500 - 3 3/4% Certificates of Indebtedness matured February 1, 1933, (representing the unallocated portion of exchange subscription), which were replaced by purchase in the market of $293,534,500 aggregate amount of short-term issues consisting for the greater part of Treasury Bills.

(2) Exchange at maturity, by exchange subscription, of

$ 8,540,500 - 3 3/4% C/I due 2/ 1/33	for	$8,540,500 - 2 5/8% T/N due 2/1/38
81,025,000 - 3 3/4% " " 3/15/33	"	25,855,000 - 4 % C/I " 9/15/33
		55,170,000 - 4 1/4% " "12/15/33
$89,565,500		$89,565,500

(3) Exchanges in the market, at advantageous rates, of $83,640,500 aggregate amount of short-term issues of Government securities for a like amount of other short-term issues of Government securities.

(4) Sales to a New York City bank, in lieu of purchase from them of a large block of bankers acceptances, of $50,000,000 - 3 3/4% Treasury Certificates of Indebtedness due March 15, 1933, which were replaced by purchases in the market of a like amount of other issues of short-term Government securities.

(5) Sale to a foreign correspondent of $40,000,000 aggregate amount of Treasury Bills which was replaced temporarily by purchase in the market of a like amount of Treasury Certificates and later exchanged for Treasury Bills when the latter were available in the market.

The following is a statement of the issues of United States Government securities held in the System Account on December 28, 1932 and on April 12, 1933:

	Dec. 28, 1932	Apr. 12, 1933
U. S. Treas. Bills due Jan. 11, 1933	$ 55,600,000	$ 0
" " " " " " 18, 1933	46,208,000	0
" " " " " " 25, 1933	69,550,000	0
" " " " " Feb. 8, 1933	43,200,000	0
" " " " " " 15, 1933	38,600,000	0
" " " " " " 23, 1933	49,950,000	0
" " " " " Mar. 1, 1933	35,000,000	0
" " " " " " 29, 1933	34,350,000	0
" " " " " Apr. 19, 1933	0	29,000,000
" " " " " " 26, 1933	0	31,100,000
" " " " " May 10, 1933	0	16,100,000
" " " " " " 17, 1933	0	36,300,000
" " " " " " 24, 1933	0	41,000,000
" " " " " " 31, 1933	0	17,500,000
" " " " " June 7, 1933	0	33,150,000
" " " " " " 21, 1933	0	11,000,000
" " " " " " 28, 1933	0	23,550,000
" " " " " July 12, 1933	0	31,000,000
3 3/4% Cert. of Ind. " Feb. 1, 1933	13,775,000	0
3 3/4% " " " " Mar. 15, 1933	151,025,000	0
2 % " " " " May 2, 1933	123,237,500	79,397,000
1 1/2% " " " " June 15, 1933	118,725,000	116,425,000
4 % " " " " Aug. 15, 1933	0	43,155,000
1 1/4% " " " " Sept. 15, 1933	175,983,000	200,533,000

						Dec. 28, 1932	Apr. 12, 1933
3/4%	Cert. of Ind.	due	Dec.	15, 1933		$ 66,454,000	$ 78,104,000
4 1/4%	" " "	"	"	15, 1933		0	68,670,000
3 %	Treas. Notes	"	May	2, 1934		78,225,000	97,025,000
2 1/8%	" "	"	Aug.	1, 1934		104,952,000	137,527,000
3 %	" "	"	June	15, 1935		79,277,000	90,477,000
3 1/4%	" "	"	Aug.	1, 1936		0	12,050,000
2 3/4%	" "	"	Dec.	15, 1936		19,880,000	27,380,000
3 %	" "	"	Apr.	15, 1937		0	24,150,000
3 1/4%	" "	"	Sept.	15, 1937		0	32,750,000
2 5/8%	" "	"	Feb.	1, 1938		0	16,440,500
3 1/2%	1st L/L Bds.	of	1932-47			25,025,000	25,025,000
4 1/4%	" " "	"	1932-47			29,000,000	29,000,000
4 1/4%	4th " "	"	1933-38			281,591,000	281,591,000
					TOTALS	$1,639,607,500	$1,629,399,500

On January 20, 1933, a sale was made of $2,500,000 United States Government securities from the Federal Reserve Bank of New York's participation to the Federal Reserve Bank of Dallas' participation in the System Account. This sale to the Federal Reserve Bank of Dallas represented part of its shortage in the holdings in the System Account which it was able to take over owing to its improved reserve position at that time.

The following is a statement showing the amount of each Federal Reserve Bank's participation in Government securities held in the System Account at the close of business Wednesday, April 12, 1933, and each Federal Reserve Bank's holding ratio, i. e., the ratio percentage that each Federal Reserve Bank's total holdings in the Account bear to the total holdings in the Account; also, the amount of each Federal Reserve Bank's outright holdings of Government securities:

	Amount of Participation	Holding Ratios	Outright Holdings
Boston	$ 92,405,000	5.6711%	$ 707,000
New York	603,510,000	37.0388%	120,296,550
Philadelphia	133,788,500	8.2109%	3,352,100
Cleveland	176,540,000	10.8347%	0
Richmond	48,149,000	2.9550%	0
Atlanta	48,625,000	2.9842%	18,000
Chicago	193,715,500	11.8887%	62,836,000
St. Louis	65,331,500	4.0096%	500,000
Minneapolis	47,224,000	2.8983%	7,034,350
Kansas City	56,248,500	3.4521%	171,600
Dallas	38,939,500	2.3898%	10,000,000
San Francisco	124,923,000	7.6668%	0
TOTALS	$1,629,399,500	100 %	$204,915,600

Statement showing adjustments in earning asset holdings of Federal Reserve Banks made during March and April, owing to the low reserve ratios of the Federal Reserve Banks which relinquished either temporarily or outright part of their holdings. All of the Government securities and the bills discounted referred to in this statement have been taken back by the banks which temporarily relinquished them.

F.R.B.	Boston	purchased temporarily	from F.R.B.	New York	$25,000,000	Gov't sec.
" " "	Chicago	" "	" " " "	" "	145,000,000	" "
" " "	Cleveland	" "	" " " "	" "	40,000,000	" "
" " "	Boston	rediscounted	for " " "	" "	20,000,000	bills disc.
" " "	Cleveland	"	" " " "	" "	25,000,000	" "
" " "	Chicago	"	" " " "	" "	150,000,000	" "
" " "	St. Louis	"	" " " "	" "	15,000,000	" "
" " "	San Fran.	purchased outright	from " " "	" "	10,000,000	bankers' bills
" " "	Richmond	" "	" " " "	" "	10,000,000	" "
		Total amount given off	by " " "	" "	$440,000,000	

F.R.B.	Boston	purchased temporarily	from F.R.B.	Phila.	$ 10,000,000	Gov't sec.
" " "	"	" outright	" " " "	"	5,000,000	bankers' bills
		Total amount given off	by " " "	"	$ 15,000,000	

F.R.B.	New York	purchased outright	from F.R.B.	San Fran.	$ 10,000,000	bankers' bills
" " "	Chicago	" "	" " " "	" "	10,000,000	" "
		Total amount given off	by " " "	" "	$ 20,000,000	

TOTAL ADJUSTMENTS FOR SYSTEM - - - - - - $475,000,000

SYSTEM PURCHASES OF BANKERS ACCEPTANCES

Statement showing amount of bankers acceptances purchased by Federal Reserve Banks in their respective markets and the amount each Federal Reserve Bank received by allotment from the Federal Reserve Bank of New York during period December 28, 1932 to April 12, 1933, exclusive of any adjustments made between Federal Reserve Banks owing to low reserve ratios.

	(000 Omitted)		
	Purchased Own Market	By Allotment From New York	Totals
Boston	$ 15,413	$ 49,711	$ 65,124
New York	103,454	0	103,454
Philadelphia	812	16,666	17,478
Cleveland	90	8,019	8,109
Richmond	331	11,021	11,352
Atlanta	1,640	18,036	19,676
Chicago	42,229	56,781	99,010
St. Louis	0	19,145	19,145
Minneapolis	0	17,600	17,600
Kansas City	0	9,218	9,218
Dallas	16	2,833	2,849
San Francisco	3,524	45,447	48,971
TOTALS	$167,509	$254,477	$421,986

Classification of Issues Held in the System Account on April 12, 1933 and the Percentage of Each Issue Held in the Account as Compared With the Amount of the Respective Issue Outstanding
(000 Omitted)

Amount of Issues Held in System Account by Classification		Amount of Respective Issues Outstanding	Percentage of Issues Held to Amount Outstanding
TREASURY BILLS			
U.S. Treasury Bills due April 19, 1933	$ 29,000	$ 75,032	38 3/4%
" " " " " " 26, 1933	31,100	80,020	38 3/4%
" " " " " May 10, 1933	16,100	75,228	21 1/2%
" " " " " " 17, 1933	36,300	75,202	48 1/4%
" " " " " " 24, 1933	41,000	60,074	68 1/4%
" " " " " " 31, 1933	17,500	100,613	17 1/2%
" " " " " June 7, 1933	33,150	75,216	44 %
" " " " " " 21, 1933	11,000	100,569	11 %
" " " " " " 28, 1933	23,550	100,158	23 1/2%
" " " " " July 12, 1933	31,000	75,733	41 %
TOTALS	$ 269,700	$ 817,845	33 %
CERTIFICATES OF INDEBTEDNESS			
2 % Cert. of Ind. due May 2, 1933	$ 79,397	$ 239,197	33 1/4%
1 1/2% " " " " June 15, 1933	116,425	373,856	31 1/4%
4 % " " " " Aug. 15, 1933	43,155	469,089	9 1/4%
1 1/4% " " " " Sept.15, 1933	200,533	451,447	44 1/2%
3/4% " " " " Dec. 15, 1933	78,104	254,364	30 3/4%
4 1/4% " " " " " 15, 1933	68,670	473,328	14 1/2%
TOTALS	$ 586,284	$ 2,261,281	26 %
TREASURY NOTES			
3 % Treas. Notes due May 2, 1934	$ 97,025	$ 244,234	39 3/4%
2 1/8% " " " Aug. 1, 1934	137,527	345,292	39 3/4%
3 % " " " June 15, 1935	90,477	416,603	21 3/4%
3 1/4% " " " Aug. 1, 1936	12,050	365,138	3 1/4%
2 3/4% " " " Dec. 15, 1936	27,380	360,533	7 1/2%
3 % " " " Apr. 15, 1937	24,150	508,329	4 3/4%
3 1/4% " " " Sept.15, 1937	32,750	834,401	4 %
2 5/8% " " " Feb. 1, 1938	16,440	277,517	6 %
TOTALS	$ 437,799	$ 3,352,047	13 %
LIBERTY LOAN BONDS			
3 1/2% 1st L/L Bds. of 1932-47	$ 25,025	$ 1,392,227	1 3/4%
4 1/4% " " " " 1932-47	29,000	535,983	5 1/2%
4 1/4% 4th " " " 1933-38	281,591	6,268,095	4 1/2%
TOTALS	$ 335,616	$ 8,196,305	4 %
GRAND TOTALS	$1,629,399	$14,627,478	11 1/4%

Total of all issues of Treasury Bills, Certificates, Notes and Bonds outstanding $20,708,733.
Percentage of issues held in System Account 7 3/4%.

MATURITIES OF GOVERNMENT SECURITIES
HELD IN SYSTEM ACCOUNT ON APRIL 12, 1933

SHORT-TERM ISSUES

Treasury Bills, Certificates and Notes

MATURING WITHIN 1 YEAR

Within 3 months	$465,522,000	
3 to 6 "	243,688,000	
6 " 9 "	146,774,000	
9 " 12 "	0	
TOTAL MATURITIES WITHIN 1 YEAR		$ 855,984,000
MATURING 1 TO 2 YEARS		234,552,000
MATURING 2 TO 3 YEARS		90,477,000
MATURING 3 TO 4 YEARS		63,580,000
MATURING 4 TO 5 YEARS		49,190,500
TOTAL		$1,293,783,500

LIBERTY LOAN BONDS

First 3 1/2% Liberty Loan Bonds	$ 25,025,000	
" 4 1/4% " " "	29,000,000	
(Due June 15, 1947 Callable on or after Dec. 15, 1933)		$ 54,025,000
Fourth 4 1/4% Liberty Loan Bonds (Due Oct. 15, 1938 Callable on or after Oct. 15, 1933)*		281,591,000
GRAND TOTAL		$1,629,399,500

*As no call was issued on April 15, 1933, callable date has been changed to April 15, 1934.

STATEMENT SHOWING EARNINGS OF ALL FEDERAL RESERVE BANKS
FOR THE FIRST THREE MONTHS OF 1933

	Gross Earnings	Current Expenses and Net Deductions From or Net Additions to Net Earnings	Available for Depreciation Allowances, Reserves, Surplus and Franchise Tax
Boston	$ 653,502	$ 702,651	$ 49,149 (a)
New York	4,465,494	2,625,903	1,839,591
Philadelphia	1,227,820	813,180	414,640
Cleveland	1,259,161	990,758	268,403
Richmond	441,458	480,322	38,864 (a)
Atlanta	471,284	390,125	81,159
Chicago	1,596,852	1,328,713	268,139
St. Louis	379,494	488,606	109,112 (a)
Minneapolis	371,748	334,982	36,766
Kansas City	445,154	496,670	51,516 (a)
Dallas	282,850	366,972	84,122 (a)
San Francisco	1,059,618	871,373	188,245
TOTALS	$12,654,435	$9,890,255	$2,764,180

(a) deficit

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(here)

April 18, 1933

PRELIMINARY MEMORANDUM FOR THE OPEN MARKET

POLICY CONFERENCE, APRIL 19, 1933

The extent to which the banking system has recovered since the banks were reopened is reflected in the following summary:

(In millions of dollars)

	Jan. 25	Mar. 8	Apr. 12
Money in circulation- - - - - - - - - - -	5,611	7,538	6,147
F. R. discounts for member banks- - - -	265	1,414	428
Member bank reserves- - - - - - - - - - -	2,513	1,776	2,096
Total reserves of F. R. Banks - - - - - -	3,460	2,809	3,529
Excess gold reserves of F. R. Banks - -	1,472	440	1,315
Combined reserve ratio of F. R. Banks -	65.4%	45.6%	60.6%

As this table shows, the improvement of banking conditions following the reopening of the banks has been almost as rapid as the preceding deterioration, due largely to the heavy return flow of currency to the banks. A large part of member bank indebtedness has been repaid, and member bank reserves, after a substantial shrinkage, have again increased moderately. The position of Federal Reserve Banks has been strengthened correspondingly.

The number of member banks licensed for full reopening is more than 80 per cent of the total number of member banks, and the proportion of member bank deposits released is more than 90 per cent. This still leaves, however, approximately $2,700,000,000 of deposits in member banks that have not been licensed, and in addition a substantial volume of deposits is still tied up in unlicensed non-member banks. The total volume of deposits still unavailable, therefore, is probably in the neighborhood of $3,500,000,000.

Although efforts were made to continue business operations as far as possible during the suspension of bank operations, the general level of business declined at that time to a new low level for recent years. The industries most seriously affected were those which were already operating at the lowest levels, such as the automobile, building, and steel industries. Subsequently there has been a fairly rapid recovery, but the movement thus far does not appear to have extended beyond a resumption of the level of activities prevailing early in February. Steel mill activity, which had declined from 20 per cent of capacity in the week of February 16 to 14 per cent in the week of March 23, increased again to 19 1/2 per cent in the week of April 13. Sales of automobiles showed a renewal of the spring expansion after the bank holidays, and automobile production was resumed. The railroad movement of merchandise also showed a resumption of the usual seasonal increase. Retail trade, at least in some localities, showed marked improvement after the reopening of the banks.

Commodity prices rose sharply when the commodity exchanges were reopened on March 16, but in most cases the rise was short-lived. Recently, however, there has been renewed strength in a number of important commodities, especially in grain prices which have reflected poor crop prospects. Wheat prices rose about 16 cents a bushel, or about one-third, from the low point of March to April 15; corn rose about 12 cents a bushel, or more than 50 per cent in the same period. Other commodities which have shown moderate strength recently include cotton, sugar, silk, rubber, copper, lead, silver, and scrap steel. Broad indexes of commodity prices, which include a large number and variety of quotations, however, remain only slightly above the lowest levels of the year.

Bond prices, which reflected the influence of liquidation of bank assets during February and early March, have thus far shown no sustained recovery. In the security markets, as in the commodity markets, there was a rise when trading was resumed, but the higher prices were not long sustained. The pressure of liquidation from closed banks has continued, and corporation bond averages on the whole remain about 8 points below the January levels, and close to the lowest levels of the year.

In the absence of the usual weekly data on member banks in principal cities, the information on recent tendencies in member bank credit is limited. In the principal New York City banks there was an increase of approximately $550,000,000 in deposits between March 8 and April 12, following a decline of about $1,500,000,000 in the preceding five weeks. The greater part of the recent increase represents a renewed increase in the balances of out-of-town correspondents, which were heavily reduced prior to the bank holiday. The loans and investments of the New York banks, which declined about $800,000,000 between February 1 and March 8, have shown no material change subsequently.

With a large part of their indebtedness at the Reserve Banks paid off, member banks have again been accumulating excess reserves in moderate amount during recent weeks. For all member banks the excess is probably now around $300,000,000, although the actual volume of reserves remains about $400,000,000 less than in January. More than half of the excess reserves are again concentrated in New York, due to tendency of banks in other localities to place their surplus funds on deposit in the large New York banks, but the actual ownership of the funds probably is fairly widely distributed. The return flow of currency to the banks continues to add to the amount of excess reserves, but has diminished considerably since the first of April.

For CIRCULATION
Gov. Meyer
Mr. Hamlin
Mr. James 333.-C-2
~~Mr. Magee~~
Mr. Miller
Mr. Harrison
Mr.
Mr.
Please note - initial and
Return to Secretary's Office

April 6, 1933

Mr. W. Randolph Burgess,
Secretary, Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Burgess:

Governor Meyer has received your letter of April 4, 1933, and is bringing to the attention of the other members of the Board the final minutes, inclosed therewith, of the meeting of the Open Market Policy Conference, held on January 4 and 5, 1933.

1-4-33 filed
Final minutes
333.-C-2

It is noted that these minutes incorporate all of the changes in the tentative draft which were suggested by the Board.

Very truly yours,

Chester Morrill,
Secretary

EMM/fsf

FILE COPY

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 6, 1933

To Files

Subject: 233.-C-2

From Mr. McClelland

GPO 2—8495

All of the changes suggested by the Board in the tentative draft of these minutes were incorporated in the final minutes.

The only other changes from the tentative draft were (1) unimportant changes in verbage of Governor McDougal's statement at bottom of page 6; (2) an addition which does not appear to change the sense of Governor McDougal's statement at the bottom of page 7; and (3) the addition of a statement by Governor Young at the bottom of page 8.

Memoranda

333.-C-2

FEDERAL RESERVE BANK
OF NEW YORK

April 4, 1933.

Dear Governor Meyer:

1-4-33 filed Final Minutes 333.-C-2

Enclosed are the final minutes of the meeting of the Open Market Policy Conference held on January 4 and 5, 1933, in which are incorporated the changes which have been suggested. Will you therefore please substitute these in your files for the tentative draft previously sent you.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess
Secretary, Open Market
Policy Conference.

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

Encl.

see ans 4/6/33

Mr. Carpenter

333.-C-2

FEDERAL RESERVE BANK

OF NEW YORK

January 31, 1933.

Dear Mr. Morrill:

Thank you for your letter of January 30 with the suggestions for changes in the minutes of the meeting of the Open Market Policy Conference held on January 4 and 5, 1933, which will be reviewed with great care.

1-4-33 filed 7 ... minutes 333.-C-2

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

333.-C-2

January 30, 1933.

Mr. W. Randolph Burgess, Secretary,
Open Market Policy Conference,
c/o Federal Reserve Bank of New York,
New York City, New York.

Dear Mr. Burgess:

Receipt is acknowledged of your letter of January 9, 1933, transmitting a tentative draft of the minutes of the meeting of the Open Market Policy Conference held on January 4 and 5, 1933.

In response to your request for suggestions as to changes which might be made in the tentative minutes, the following are submitted:

On pages 1 and 8, in naming the members of the Board's staff in attendance at the meeting, the name of Mr. Carpenter is incorrectly recorded as Mr. Carter.

Following the statement on page 1 that Dr. Goldenweiser reviewed the recent developments in the credit situation add "and presented a memorandum on the subject prepared in the Board's Division of Research and Statistics. During Dr. Goldenweiser's statement the Chairman of the Board joined the meeting."

Change the following sentence to read "The Secretary of the Conference then read the preliminary memorandum on credit conditions previously distributed," and transfer it to follow, rather than precede, Governor Meyer's opening statement.

Change Governor Meyer's opening statement to read "Governor Meyer stated that probably at no time since the war has the relation between the open market policy of the Federal Reserve System and the general economic situation been so important and that for this reason it is particularly necessary that the decision of the Open Market Policy Conference be of such a character as to be capable of expression in definite terms which will be understandable to the public and justify confidence

FILE COPY

Rec'd ans 1/31/33

"in the soundness and stability of the system's policy. He referred to the agitation, especially in Congress, for the adoption of inflationary measures and pointed out that under conditions like these the system must of necessity give due consideration to such factors in reaching a determination as to future policy. He also stated that during his recent visits to seven of the Federal reserve banks, when he discussed the open market policy with the directors of those banks, he found what appeared to be general approval, and he expressed the opinion that the policies of the system, in the light of conditions which have existed during the last two years, have been remarkably free from public criticism."

On page 3, in line 4 of paragraph (1) change "the only effective argument" to "the most effective argument."

In outlining the arguments for and against some reduction in the portfolio of governments, you will recall that Governor Harrison suggested that, if a reduction should be made in the system account, the amount of securities disposed of should not exceed the amount of the return flow of currency, and that the system should not attempt to offset gold imports, for the reason that if such imports are sterilized, under present conditions, the position of the United States in connection with any attempt of foreign nations to return to the gold standard would be considerably weakened. You may wish to add something to this effect after paragraph (3) on page 3.

On page 3, in Governor Meyer's statement immediately following paragraph (3) the verb "was" should be changed to "is" in the two places it is used.

At the top of page 4 change the first paragraph to read "Governor Norris raised the question of the probable renewal of the provisions of Sections 2 and 3 of the Glass-Steagall Bill, and in general discussion it was suggested that there would probably be little difficulty in the renewal of the provisions referred to, and that in any event the situation of the banks with respect to collateral for Federal reserve notes could not be relieved by the sale of any reasonable amount of Government securities."

At about the middle of page 4 change Governor Black's statement to read "Governor Black said that while he saw no economic reasons for not letting maturities run off, he was greatly impressed by the dangers of unsound inflationary proposals and believed that they could only be combated by the continuance of the present policy of the Federal Reserve System."

On page 7 eliminate the clause "pending another meeting of the Conference" at the end of the resolution adopted by the Conference. This clause is a repetition of that appearing at the beginning of the resolution.

On page 8, following the entrance of the members of the Board, eliminate Governor Meyer's first statement and say "The resolution adopted by the Conference was presented to the Board and unanimously approved by it."

In the next paragraph eliminate the sentence "It was important, however, that a careful explanation of the action should be made to member banks and others" and substitute the following: "Governor Meyer then stated that it is the opinion of the Federal Reserve Board that the Governors of the Federal reserve banks can contribute a great deal to the success of the system open market policy by explaining to member banks in a positive way, whenever an opportunity is afforded, the purposes sought to be accomplished by the policy."

Transfer Governor Meyer's statements regarding reduction in the rate on 10(b) loans and the importance of building up the man power of the Federal Reserve System to the end of the minutes, just preceding adjournment.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

EMM/aew

Appd
AT EXECUTIVE COMMITTEE MEETING
FEB 1 1933

For APPROVAL

Gov. Meyer
Mr. Hamlin
Mr. James
~~Mr. Magee~~
Mr. Miller
Mr.

Please initial file copy if you approve and return to Secretary's Office.

FILE COPY

333.-C-2

FEDERAL RESERVE BANK
OF NEW YORK

January 9, 1933.

Dear Governor Meyer:

1-4-33

Enclosed is a tentative draft of the minutes of the meeting of the Open Market Policy Conference on January 4 and 5. I should be glad to receive at your early convenience any changes which you have to suggest.

Very truly yours,

W. Randolph Burgess

W. Randolph Burgess,
Secretary, Open Market
Policy Conference.

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

Enc.

JAN 10, 1933

see ans 1/30/33

TENTATIVE DRAFT - SUBJECT TO CORRECTION

333.-C-2

CONFIDENTIAL

MINUTES OF MEETING OF THE
OPEN MARKET POLICY CONFERENCE
WEDNESDAY, JANUARY 4, 1933,
WASHINGTON, D. C.

The meeting was called to order at 10:20 a. m., there being present the following:

Governor Harrison, chairman, and
Governors Young, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, Hamilton, McKinney, and Calkins,
and Deputy Governor Burgess, secretary.

The secretary's report of operations was received, and placed on file. The preliminary memorandum on credit conditions was distributed.

Governor Harrison pointed out that the present organization of the conference called for rotation in the membership of the executive committee, and it was moved and carried that the present executive committee be continued for another year.

Governor Young reported that the committee on banking legislation had been in session the previous day and had reached a general agreement. He indicated that the preliminary report of the committee would be mailed to the governors in a few days.

At 10:35 the members of the Federal Reserve Board entered the meeting, there being present:

Governor Meyer, Messrs. Hamlin, James, Miller, Magee, and
from the Board Staff Messrs. Floyd Harrison, Morrill,
Goldenweiser, Wyatt, Smead, McClelland, and ~~Carter.~~ Carpenter.

Dr. Goldenweiser reviewed the recent developments in the credit situation, and presented a memorandum on the subject prepared in the Board's Division of Research and Statistics.

The Secretary, of the conference then read ~~presented~~ the preliminary memorandum on credit conditions, previously distributed.

Governor Meyer stated that Federal reserve policy at this time was attended with public and political implications especially in view of the inflationary drive being made in Congress. He believed that the policy up to this point had been well supported and the system had been successful in operating in a way to inspire confidence.

(X) During Mr Goldenweiser's statement the Chairman of the Board joined the meeting.

Secretary Mills on request reviewed the budgetary situation of the government. He also reviewed the proposals for inflation which were being made to the Congress and suggested that any slackening in Federal reserve open market policy might provide an excuse for an unsound inflation bill. Secretary Mills pointed out, however, that the Treasury itself was not directly or indirectly interested in the decision the open market policy conference might reach. The Treasury should pay the market price for its money and should not expect, for example, to take advantage of any abnormal situation for a large refunding operation. Policy should be determined independently of the Treasury position.

As a basis for discussion by the Conference, Governor Harrison then 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.

most

(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 adoption 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 holding 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.

gold imports

Governor Meyer suggested that what ~~was~~ is most required ~~was~~ is assurance as to the continuance of the pressure of excess reserves.

Mr. Miller suggested that the precise amount of excess reserves maintained was an incidental detail, but that the important question was one of policy and direction of movement, and that there might be harm in stopping excess reserves from accumulating.

There ensued a general discussion during which the question was raised whether country banks could and would make use of excess reserves if driven back from the centers. Governor Martin pointed out that fear of bank failures was preventing banks from using their excess reserves and if that situation were corrected the excess reserves would be put to use.

Governor Calkins emphasized the same difficulty, particularly in relation to agricultural banks.

Governor Meyer pointed out that one effect of the policy had been to relieve greatly the finances of cities and states, so that they could secure money in the market for relief and other necessary activities. This was helpful in keeping the social organization going.

Governor Norris raised the question of the probable renewal of the provisions of Sections 2 and 3 of the Glass Steagall bill, and in general discussion it was suggested that there would probably be little difficulty in the renewal of ~~that bill~~ provisions referred to, and that in any event the situation of the banks with respect to collateral for Federal reserve notes could not be relieved by the sale of any reasonable amount of government securities.

There ensued some further discussion of the use of excess reserves and the probable effects of a discontinuance of interest on deposits in New York should that occur. There was some difference of opinion as to the extent to which an excess of reserves would be put to use by banks if it were distributed more widely throughout the country, some expressing the belief that the funds would be put to use in investments or somewhat freer lending, and others expressing the opposite opinion.

The meeting adjourned at 1:10 p. m.

The meeting reconvened at 2:25 p. m., there being present the following:

Governor Harrison, chairman, and
Governors Young, Norris, Fancher, Seay, Black, McDougal, Martin, Geery, Hamilton, McKinney, and Calkins, and Deputy Governor Burgess, secretary.

After some further general discussion each of the governors stated his views which may be summarized briefly as follows:

Governor Black said that while he saw no economic reasons for not letting maturities run off he was greatly impressed by the dangers of unsound inflationary proposals and believed they could only be combated by a continuation of a Federal reserve policy of controlled inflation.

Governor Geery favored letting January maturities run off after making a statement that the policy of maintaining excess reserves would be continued. Future policy could be governed by the effects of this operation.

Governor Seay believed that the dangers of a further accumulation of reserves were greater than those of disposing of some securities. He believed a statement that there was no change in policy would be adequate to deal with political problems which have a way of not materializing. He would let not less than

$200,000,000 of securities go.

Governor Young emphasized the opportunity in January for letting governments go without interfering with excess reserves. He would let January maturities run off and perhaps those of February and would try to speed up the renewal of the Glass Steagall bill.

Governor Calkins stated that he was not impressed by the political argument and particularly with the System's power to deal with inflationists. He was not a supporter of the theory that excess reserves were effective in expanding credit. He would, however, let a smaller amount of governments than the January maturities run off and not decide yet about February.

Governor Martin thought the elimination of interest on deposits would result in hoarding and other difficulties. He believed the banking situation must be straightened out before excess reserves would have their full effect. He would favor letting some securities run off with the executive committee keeping in close touch with the results.

Governor Hamilton believed the System should not base its action on the political situation. He would favor letting January maturities run off and having another meeting to decide on February maturities. He considered it important to explain the action to the public.

Governor Fancher thought an elimination of interest charges due to increasing reserves would be undesirable. He believed some of the maturities in January should not be replaced, relating any changes to the return flow of currency.

Governor Norris suggested that further increases in excess reserves would adversely affect bank earnings and incur the risk of disturbance which might arise from eliminating interest on deposits. As to political effects one danger was the encouragement to an unbalanced budget. The other related to inflationary proposals. He believed this latter difficulty could be met by a careful statement of policy. He would favor letting January maturities run off to the extent of the currency return but would only favor doing this if an explanation were made. If no explanation were made he would favor maintaining the portfolio.

Governor McDougal believed that further increase in excess reserves would be unhealthful and that reductions in the portfolio might make open market money rates firmer and strengthen the position of the Reserve System. He favored letting at least January maturities run off; perhaps February also.

Governor McKinney did not favor giving too much consideration to the political aspects. He would permit the greater proportion of January maturities to run off.

Governor Harrison said he had felt all along that some securities should be allowed to run off in January but he attached considerable weight to the dangers of the inflationary movement all over the country. He feared misinterpretation of sales by the banks, the market and by Congress, but believed that this difficulty might be largely avoided if the policy were clearly understood to be one of continuing to maintain substantial excess reserves in present conditions. This might involve purchases as well as sales of securities.

The conference then proceeded to draft a resolution, starting with a motion by Governor Calkins that the executive committee be authorized to dispose of $100,000,000 to $125,000,000 of securities in January to offset currency returns. Before adjournment a preliminary draft of the resolution was voted upon favorably, Governors McDougal, Seay, and Black, voting in the negative. It was decided to hold a further meeting in the morning, and since Governor Black was unable to stay until morning he desired to record his dissent from any proposal for reducing the System portfolio, as follows:

> "I am in accord with the economic reasons given by the Conference for the proposed reduction in governments. I, however, have an intense feeling that the present situation as to proposed inflationary measures creates a new condition that is most serious and should be persuasive of action resulting in maintaining our present holdings; and I therefore vote 'no' on the present motion."

After further discussion of the draft resolution the meeting adjourned at 6:05 p. m.

January 5, 1933.

The meeting was called to order at 10:06 a. m., there being present the following:

Governor Harrison, chairman, and
Governors Young, Norris, Fancher, Seay, McDougal,
Martin, Geery, Hamilton, McKinney, and Calkins,
and Deputy Governor Burgess, secretary.

The discussion of the draft resolution was continued, and after further modifications, it 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.)

out

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.

At 11:00 a.m. o'clock the members of the Federal Reserve Board entered the meeting, there being present, in addition to the governors of the Federal reserve banks, the following:

Governor Meyer, Messrs. Miller, Hamlin, James, Magee, Morrill, Harrison, Wyatt, McClelland, and ~~Carter.~~ Carpenter

~~Governor Meyer stated that~~ The Federal Reserve Board ~~had~~ considered the resolution adopted by ~~action of~~ the conference and approved it unanimously.

Governor Meyer expressed satisfaction with the form of resolution in that it provided a more scientific basis for action than the usual resolution which simply indicated a definite amount of securities to be bought or sold. The resolution gives assurance to banks and business men as to the continuation of easy money and should help make the policy more effective. It was important, however, that a careful explanation of the action should be made to member banks and others.

next page

Governor Meyer said that the Board had approved reductions in the rate on 10-B loans in the case of two reserve banks and would be glad to act upon other applications.

Governor Meyer suggested the importance of building up the man power of the Reserve System by bringing in able young men. There ensued some discussion of the aid which an adequate pension plan would give to this proposal, and it was indicated that the Board was studying the recommendations of the governors upon that point.

Governor Harrison reported the interpretations of the resolution upon which the conference was agreed.

There ensued a general discussion of what if any statement might be given to the press, and Dr. Miller and Mr. Hamlin, and Governors Harrison and Norris were constituted a committee to draft a statement, and they withdrew to prepare a statement.

At 12:52 p. m., the committee returned and the following statement was read and adopted without dissent:

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.

Insert

At 1:00 p. m., the meeting adjourned.

W. Randolph Burgess,

Secretary.

333.-C-2

CONFIDENTIAL

REPORT OF OPEN MARKET OPERATIONS TO MEETING OF OPEN MARKET POLICY CONFERENCE HELD IN WASHINGTON ON JANUARY 4, 1933

At the last meeting of the Open Market Policy Conference held in Washington on November 15, 1932, a motion was carried, that it was the consensus of the Conference that no change should be made at that 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. Pursuant to this action there has been no change in the amount of holdings of government securities in the System Account, the total remaining up to the close of business Wednesday, December 28, 1932, at $1,639,607,500.

Transactions effected in the System Account since the report to the November 15 meeting consisted of

(1) Redemptions of $224,114,000 aggregate amount of maturing Treasury bills and $19,900,000 - 3 1/4% Treasury notes matured December 15, 1932, (representing the unallocated portion of exchange subscription) which were replaced by purchases in the market of $244,014,000 aggregate amount of short-term issues consisting principally of Treasury bills.

(2) Exchange at maturity, by exchange subscription, of $55,434,000 - 3 1/4% Treasury notes matured December 15, 1932, for $40,554,000 new one year 3/4% Treasury certificates and $14,880,000 new four year 2 3/4% Treasury notes.

(3) Exchanges in the market at advantageous rates of $92,200,000 aggregate amount of short-term issues of government securities for a like amount of other short-term issues.

The following is a statement showing the issues of United States Government securities held in the System Account on November 2, 1932, and on December 28, 1932:

	Nov. 2, 1932	Dec. 28, 1932
U. S. Treasury Bills due Nov. 9, 1932	$ 53,500,000	$ 0
" " " " " " 16, 1932	59,500,000	0
" " " " " " 23, 1932	38,677,000	0
" " " " " " 30, 1932	45,587,000	0
" " " " " Dec. 28, 1932	61,100,000	0
" " " " " Jan. 11, 1933	54,100,000	55,600,000
" " " " " " 18, 1933	42,208,000	46,208,000
" " " " " " 25, 1933	27,000,000	69,550,000
" " " " " Feb. 8, 1933	0	45,200,000
" " " " " " 15, 1933	0	38,600,000
" " " " " " 23, 1933	0	49,950,000
" " " " " Mar. 1, 1933	0	35,000,000
" " " " " " 29, 1933	0	34,350,000
3 1/4% Treasury Notes " Dec. 15, 1932	101,197,000	0
3 3/4% Cert. of Ind. " Feb. 1, 1933	13,775,000	13,775,000
3 3/4% " " " " Mar. 15, 1933	174,025,000	151,025,000
2 % " " " " May 2, 1933	123,987,500	123,237,500
1 1/2% " " " " June 15, 1933	113,575,000	118,725,000
1 1/4% " " " " Sept.15, 1933	163,483,000	175,983,000
3/4% " " " " Dec. 15, 1933	0	66,454,000
3 % Treasury Notes " May 2, 1934	75,225,000	78,225,000
2 1/8% " " " Aug. 1, 1934	102,452,000	104,952,000
3 % " " " June 15, 1935	74,600,000	79,277,000
2 3/4% " " " Dec. 15, 1936	0	19,880,000
3 1/2% 1st L/L Bds of 1932-47	25,025,000	25,025,000
4 1/4% " " " " 1932-47	29,000,000	29,000,000
4 1/4% 4th " " " 1933-38	281,591,000	281,591,000
Totals	$1,639,607,500	$1,639,607,500

The following is a statement showing the amount of each Federal reserve bank's participation in Government securities held in the System Account at the close of business Wednesday, December 28, 1932, and each Federal reserve bank's holding ratio, i. e., the ratio percentage that each Federal reserve bank's total holdings in the Account bear to the total holdings in the Account; also the amount of each Federal reserve bank's outright holdings of Government securities:

	Amount of Participation	Holding Ratios	Outright Holdings
Boston	$ 95,978,500	5.8538%	$ 689,000
New York	607,453,000	37.0487%	124,296,550
Philadelphia	135,919,000	8.2897%	3,350,100
Cleveland	178,282,000	10.8735%	0
Richmond	47,132,500	2.8746%	0
Atlanta	46,560,000	2.8397%	58,350
Chicago	199,195,000	12.1489%	65,015,000
St. Louis	65,655,500	4.0043%	500,000
Minneapolis	47,087,000	2.8719%	7,106,000
Kansas City	57,180,500	3.4875%	71,600
Dallas	35,721,000	2.1786%	10,000,000
San Francisco	123,443,500	7.5288%	0
Totals	$1,639,607,500	100 %	$209,086,600

Classification of Issues Held in the System Account on December 28, 1932, and the Percentage of Each Issue Held in the Account as Compared With the Amount of the Respective Issue Outstanding
(000 Omitted)

Amount of Issues Held in System Account by Classification		Amount of Respective Issues Outstanding	Percentage of Issues Held to Amount Outstanding
TREASURY BILLS			
U. S. Treasury Bills due Jan. 11, 1933	$ 55,600	$ 75,954	73 1/4%
" " " " " " 18, 1933	46,208	75,110	61 1/2%
" " " " " " 25, 1933	69,550	80,295	86 1/2%
" " " " " Feb. 8, 1933	43,200	75,056	57 1/2%
" " " " " " 15, 1933	38,600	75,480	51 %
" " " " " " 23, 1933	49,950	60,000	83 1/4%
" " " " " Mar. 1, 1933	35,000	100,000	35 %
" " " " " " 29, 1933	34,350	100,039	34 1/4%
Totals	$372,458	$641,934	58 %
CERTIFICATES OF INDEBTEDNESS			
3 3/4% Cert. of Ind. due Feb. 1, 1933	$ 13,775	$ 144,372	9 1/2%
3 3/4% " " " " Mar. 15, 1933	151,025	660,716	22 3/4%
2 % " " " " May 2, 1933	123,238	239,197	51 1/2%
1 1/2% " " " " June 15, 1933	118,725	373,856	31 3/4%
1 1/4% " " " " Sept. 15, 1933	175,983	451,447	39 %
3/4% " " " " Dec. 15, 1933	66,454	254,365	26 %
Totals	$649,200	$2,123,953	30 1/2%
TREASURY NOTES			
3 % Treasury Notes due May 2, 1934	$ 78,225	$ 244,235	32 %
2 1/8% " " " Aug. 1, 1934	104,952	345,293	30 1/2%
3 % " " " June 15, 1935	79,277	416,603	19 %
2 3/4% " " " Dec. 15, 1936	19,880	360,534	5 1/2%
Totals	$282,334	$1,366,665	20 3/4%
LIBERTY LOAN BONDS			
3 1/2% 1st L/L Bds of 1932-47	$ 25,025	$ 1,392,228	1 3/4%
4 1/4% " " " " 1932-47	29,000	535,983	5 1/2%
4 1/4% 4th " " " 1933-38	281,591	6,268,100	4 1/2%
Totals	$ 335,616	$ 8,196,311	4 %
GRAND TOTALS	$1,639,608	$12,328,863	13 1/4%

Total of all issues of Treasury Bills, Certificates, Notes and Bonds outstanding $19,303,154.
Percentage of issues held in System Account 8 1/2%.

MATURITIES OF GOVERNMENT SECURITIES HELD IN SYSTEM ACCOUNT ON DECEMBER 28, 1932

SHORT-TERM ISSUES

Treasury Bills, Certificates and Notes

MATURING WITHIN 1 YEAR		
Within 3 months	$537,258,000	
3 to 6 months	241,962,500	
6 to 9 months	175,983,000	
9 to 12 months	66,454,000	
TOTAL MATURITIES WITHIN 1 YEAR		$1,021,657,500
MATURING 1 TO 2 YEARS		183,177,000
MATURING 2 TO 3 YEARS		79,277,000
MATURING 3 TO 4 YEARS		19,880,000
TOTAL		$1,303,991,500

LIBERTY LOAN BONDS

First 3 1/2% Liberty Loan Bonds	$ 25,025,000	
" 4 1/4% " " "	29,000,000	
(Due June 15, 1947 Callable on or after June 15, 1933)		$ 54,025,000
Fourth 4 1/4% Liberty Loan Bonds		
(Due Oct. 15, 1938 Callable on or after Oct. 15, 1933)		281,591,000
GRAND TOTAL		$1,639,607,500

Changes in participations in government securities in the System Account since November 2, 1932.

Sales of $5,000,000 (aggregate amount) from the Federal Reserve Bank of New York's participation to the Federal Reserve Bank of Dallas' participation as follows:

November 12, 1932	$2,500,000
December 6, 1932	2,500,000
	$5,000,000

This sale to the Federal Reserve Bank of Dallas was due to the improved reserve position of the latter bank and represented part of its shortage in the holdings in System Account.

System Purchases of Bankers Acceptances

The amount of bankers acceptances purchased by the System since November 2, 1932, has been negligible, and no allotments were made by the Federal Reserve Bank of New York.

333.-C-2

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

CONFIDENTIAL

BUSINESS AND CREDIT CONDITIONS

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.

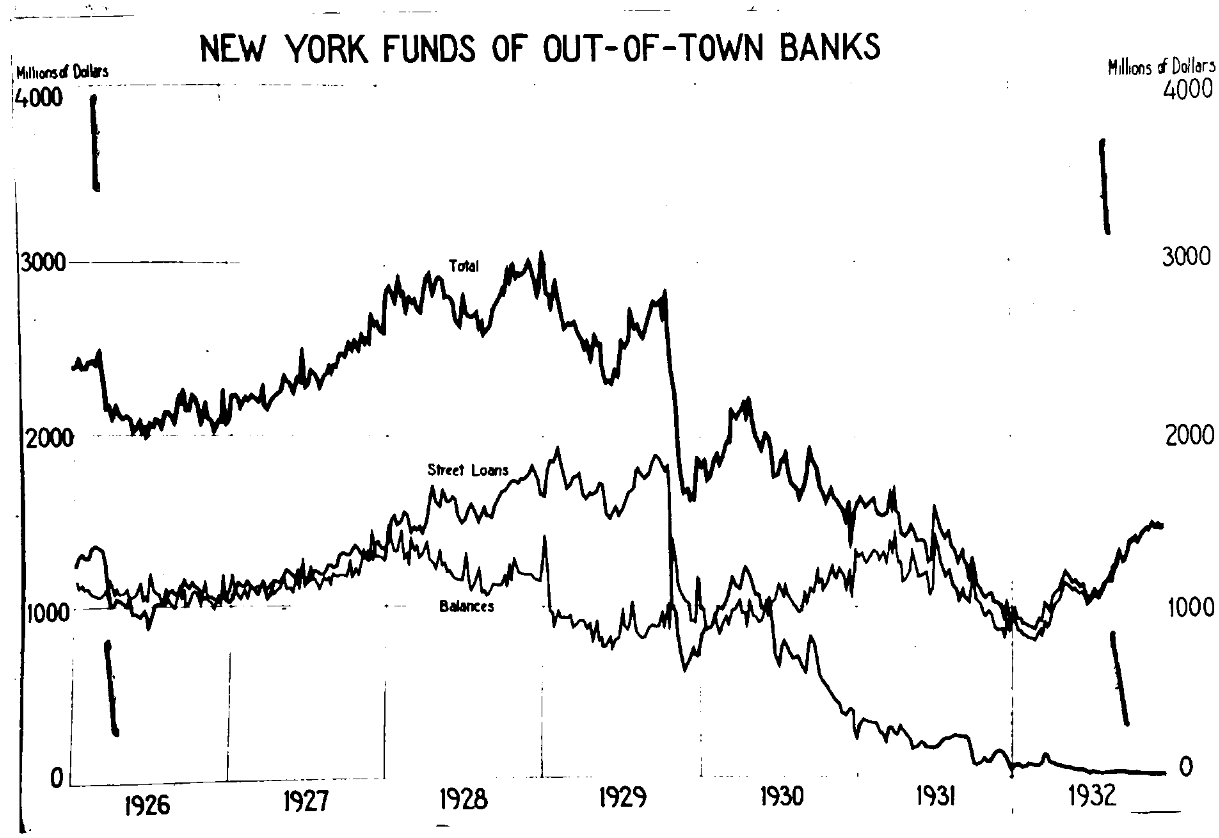
In general, the increase in industrial production this fall has been concentrated in industries producing non-durable goods, such as textiles and shoes. During recent months, however, there has been a marked increase in production of bituminous coal, and in December output of automobiles increased substantially 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



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.

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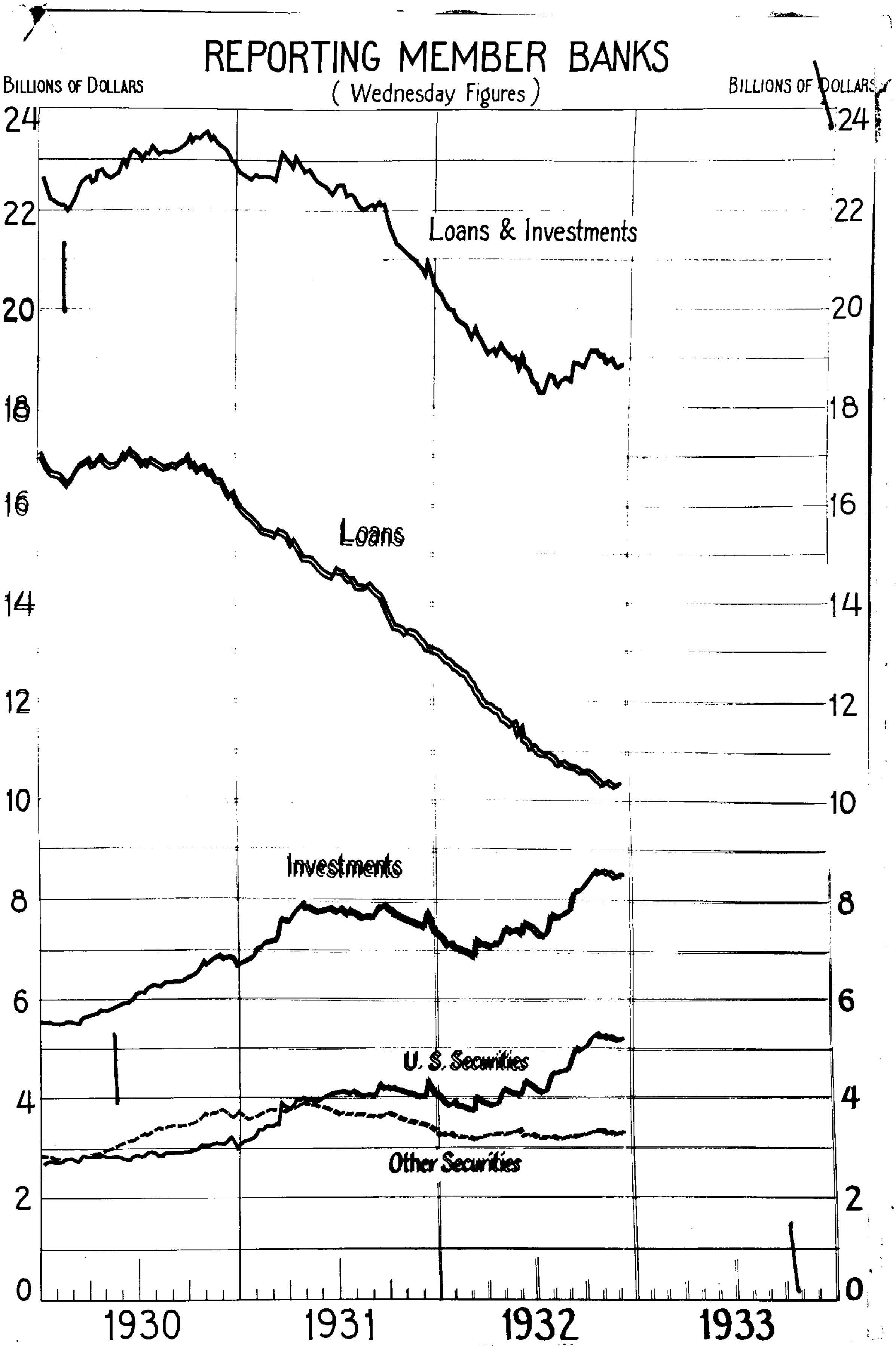
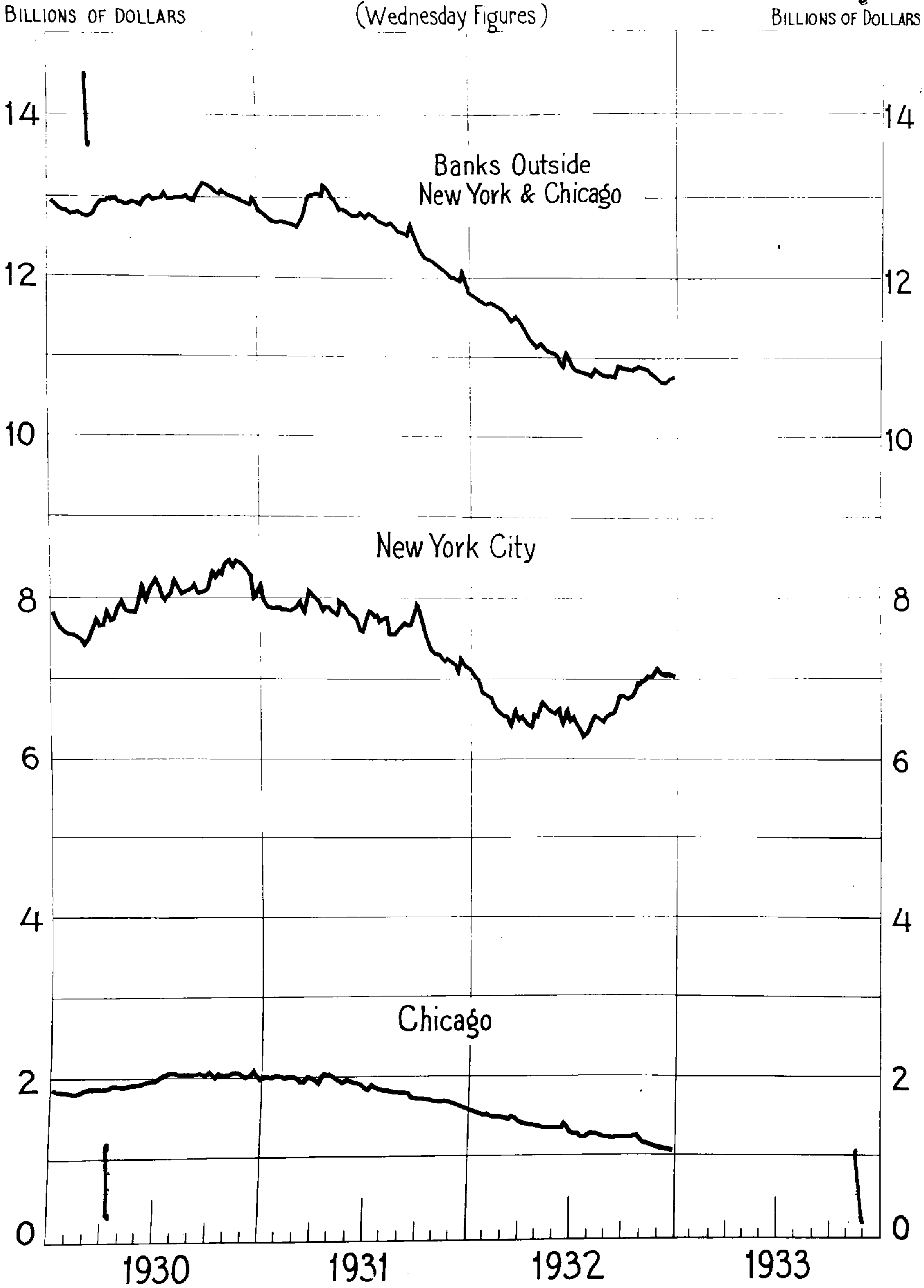
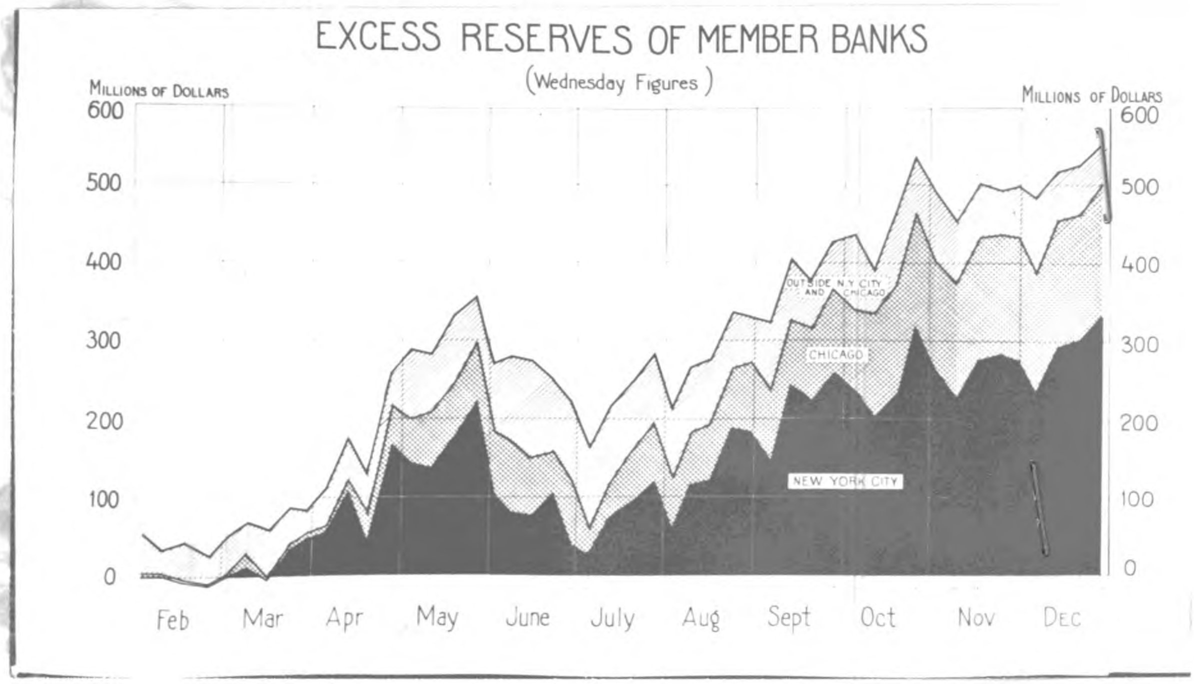

REPORTING MEMBER BANKS
(Wednesday Figures)
BILLIONS OF DOLLARS
BILLIONS OF DOLLARS
24
22
20
18
16
14
12
10
8
6
4
2
0
Loans & Investments
Loans
Investments
U. S. Securities
Other Securities
1930
1931
1932
1933

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

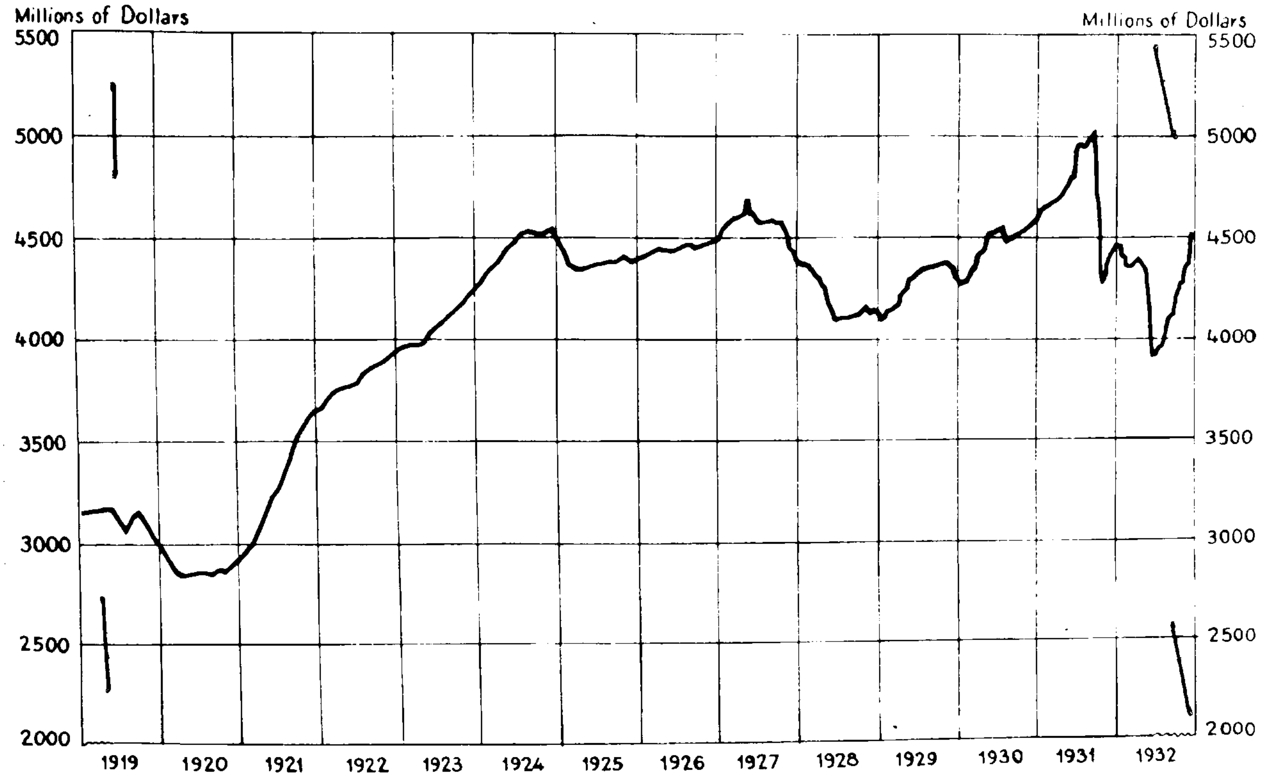
September 16, 1931 to December 28, 1932
(In thousands of dollars)

	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

MONETARY GOLD STOCK OF THE UNITED STATES



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

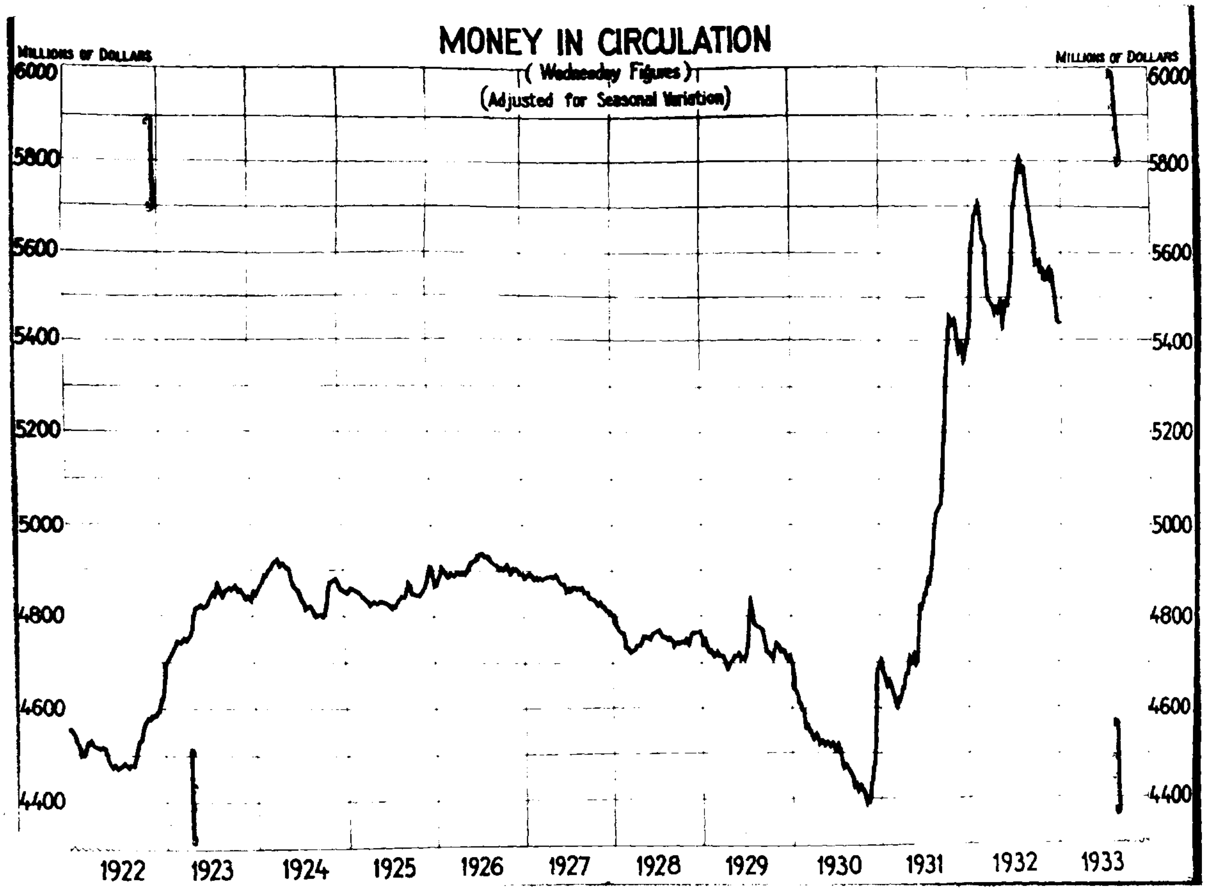
(Amounts in thousands of dollars)

District	Reserve ratio	Excess reserves	Federal reserve notes outstanding	Collateral: Eligible paper	Collateral: United States securities	Collateral: Gold	Deficiency in gold (1)	Own Federal reserve notes
	(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.



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

<u>Position of the public debt</u>

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	Certificates	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)

333.-C-2

CONFIDENTIAL

December 31, 1932.

PRELIMINARY MEMORANDUM FOR THE OPEN MARKET POLICY CONFERENCE, JANUARY 4, 1933.

When the decision was made last February to begin open market purchases of securities the primary aim of the policy as revealed in the discussions was to check the unprecedented liquidation of bank credit which was exerting a seriously depressing influence on business and on prices. It was hoped that purchases of Government securities would enable member banks to pay off indebtedness and accumulate some excess reserves, with the consequence that the pressure to liquidate might be lessened and a moderate expansion of bank credit might occur, which would exert some influence in the direction of a recovery in business and in commodity and bond prices.

In the first half of the year funds made available by open market operations were largely absorbed by gold exports and currency hoarding, but in the second half of the year both these movements were reversed and, with the discontinuance of open market purchases, currency returns and gold imports were largely responsible for building up excess reserves and so became the active factors operating towards the objectives which had been set for open market operations.

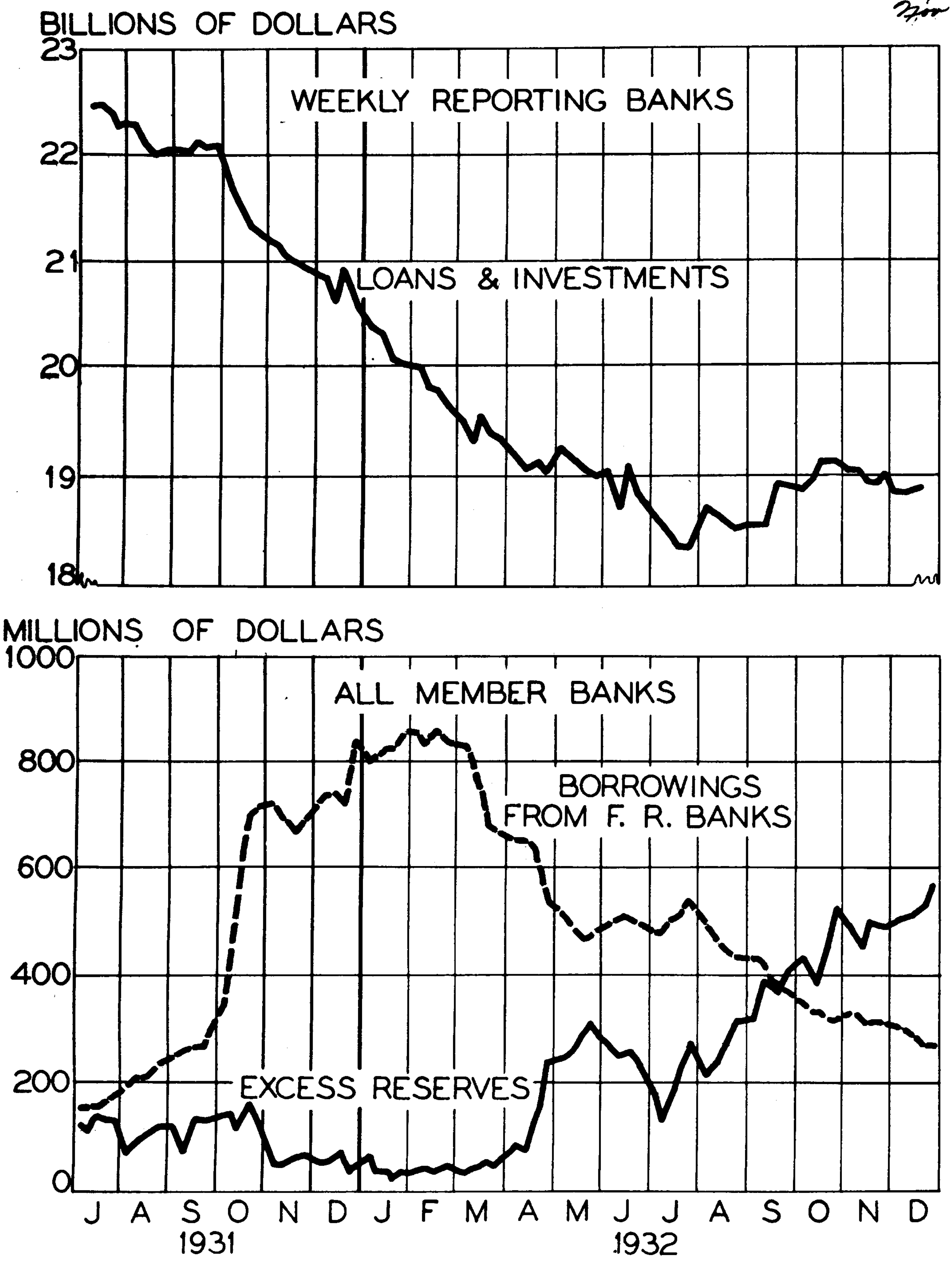
Changes in Credit and Business

There have been substantial results towards achieving the objectives outlined above. These results may be summarized as follows:

(1) Member bank borrowing. When the open market policy was under discussion doubts were expressed as to the possibility of reaching the member banks outside of principal centers, whose borrowings accounted for a major part of reserve bank discounts. Since February 24 when purchases of government securities were begun discounts have been reduced from $835,000,000 to $265,000,000.

2362

Report ... Nov 7, 1932



Excess Reserves and Indebtedness of All Member Banks, Compared with Loans and Investments of Weekly Reporting Banks

(2) Bank credit. Loans and investments of the reporting banks stopped declining in July and since that time have increased by $500,000,000. The increase was wholly in government securities though other forms of credit have shown greater stability. The increase also was concentrated in New York, but in other parts of the country the decline in credit has been checked.

(3) Bond market. The bond market made a recovery of about 25% and then lost approximately half the gain. The reaction was followed by a number of weeks of relative stability, and there is now some evidence of renewed strength. In recent weeks buying of long term government securities by banks, insurance companies and investors has resulted in new high prices since the autumn of 1931, and this buying movement appears to be spreading into other parts of the bond market. The prospects for an improved bond market are better than for some weeks past.

(4) Commodity prices. Commodity prices rose about 3 per cent and subsequently lost all of this gain, reflecting in part the pressure of depreciated currencies upon world prices, and especially the weakness of sterling. While depreciation of currencies has tended to increase or stabilize domestic paper prices it has depressed world gold prices by reducing the buying power of countries with depreciated currencies, and decreasing their production costs so they can sell at lower gold prices.

(5) Business. The volume of business as measured by production indexes rose about 14 per cent but has lost part of this gain.

The present situation may be summarized by saying that a good start was made toward recovery, that this movement has been interrupted, and is now hesitant and uncertain. The improvement in sentiment is perhaps even more marked than the improvement in the statistics; but in this respect also some ground has been lost in recent weeks.

Precedents in Earlier Depressions

Whether or not these developments in business and in prices are to be viewed as disappointing depends very largely upon expectations. A comparison of recent developments with those of previous periods of depression shows that recent events have followed much the usual pattern of business recovery from depression which is usually highly irregular and uncertain in the early stages.

The accompanying series of charts indicates the sequence of events in the more important depressions of the past fifty years. The amount of excess reserves that accumulated in New York banks in each of these periods, and the lapse of time before a sustained recovery in prices and in business activity got under way are summarized in the succeeding table.

Excess reserves - N. Y. City Banks

Period	Amount ($ million)	Per cent of Requirements
1884-'85	26 to 64	34 to 67
1893-'94	39 to 100	37 to 74
1896-'97	33 to 55	25 to 38
1908	30 to 58	11 to 18
1921-'22	(Practically none; borrowings equal to 1 1/2 times reserve requirements retired)	
1932 (since July)	100 to 300	14 to 40

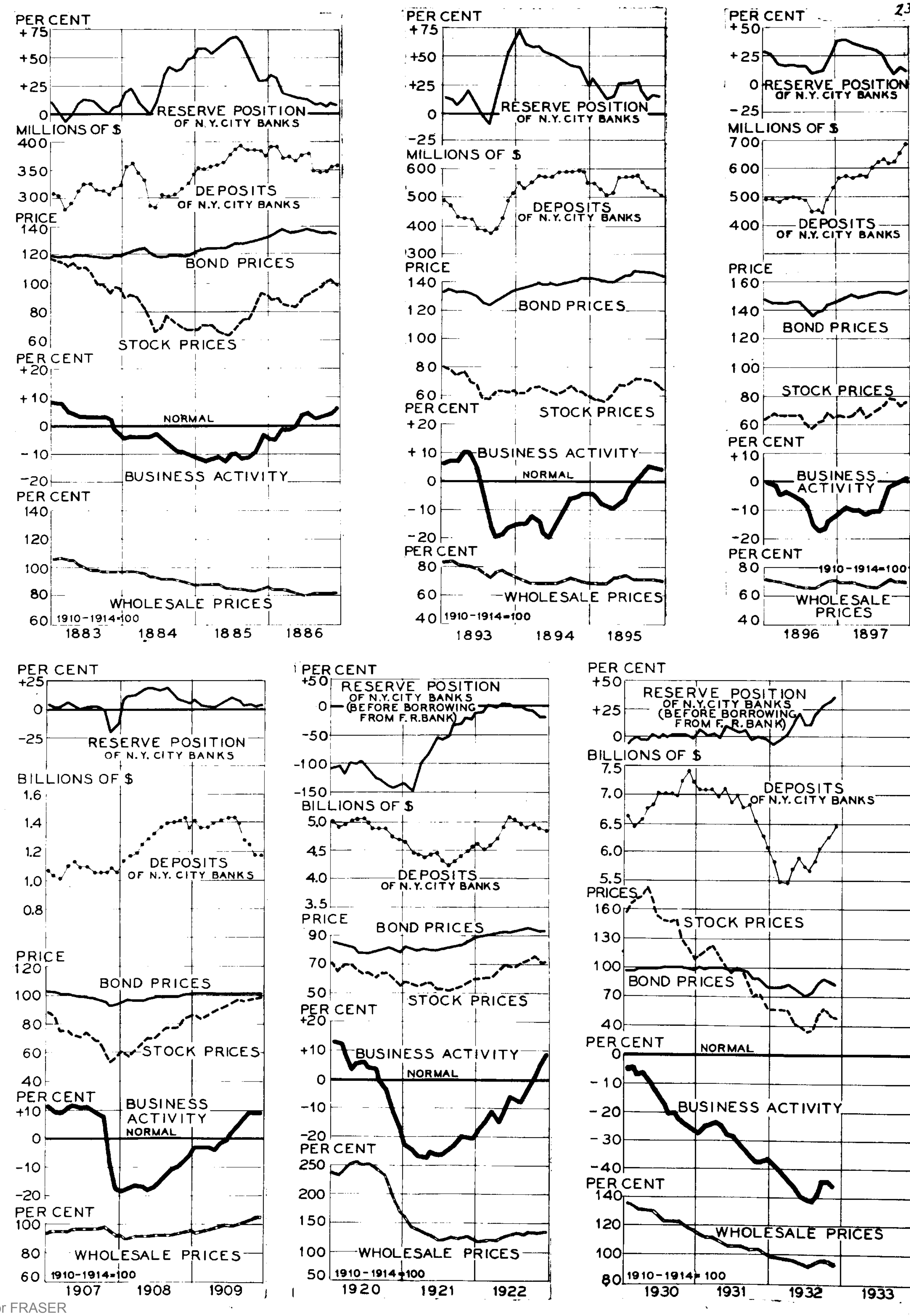
Lapse of time until sustained rise in bond prices began

1884-'85	-	about 6 months
1893-'94	-	practically none
1896-'97	-	none
1908	-	practically none
1921-'22	-	within 3 months of substantial reduction in bank indebtedness.

Lapse of time until sustained rise in business activity began

1884-'85	-	nearly a year and a half
1893-'94	-	about 10 months
1896-'97	-	about 10 months
1908-	-	about 6 months
1921-'22	-	about 6 months after substantial reduction in bank indebtedness

Federal Reserve Bank
of New York
Reports Department
Nov 7 , 1932.
2321.1



Sequence of Events in Periods of Depression

Lapse of time until sustained rise in commodity prices began

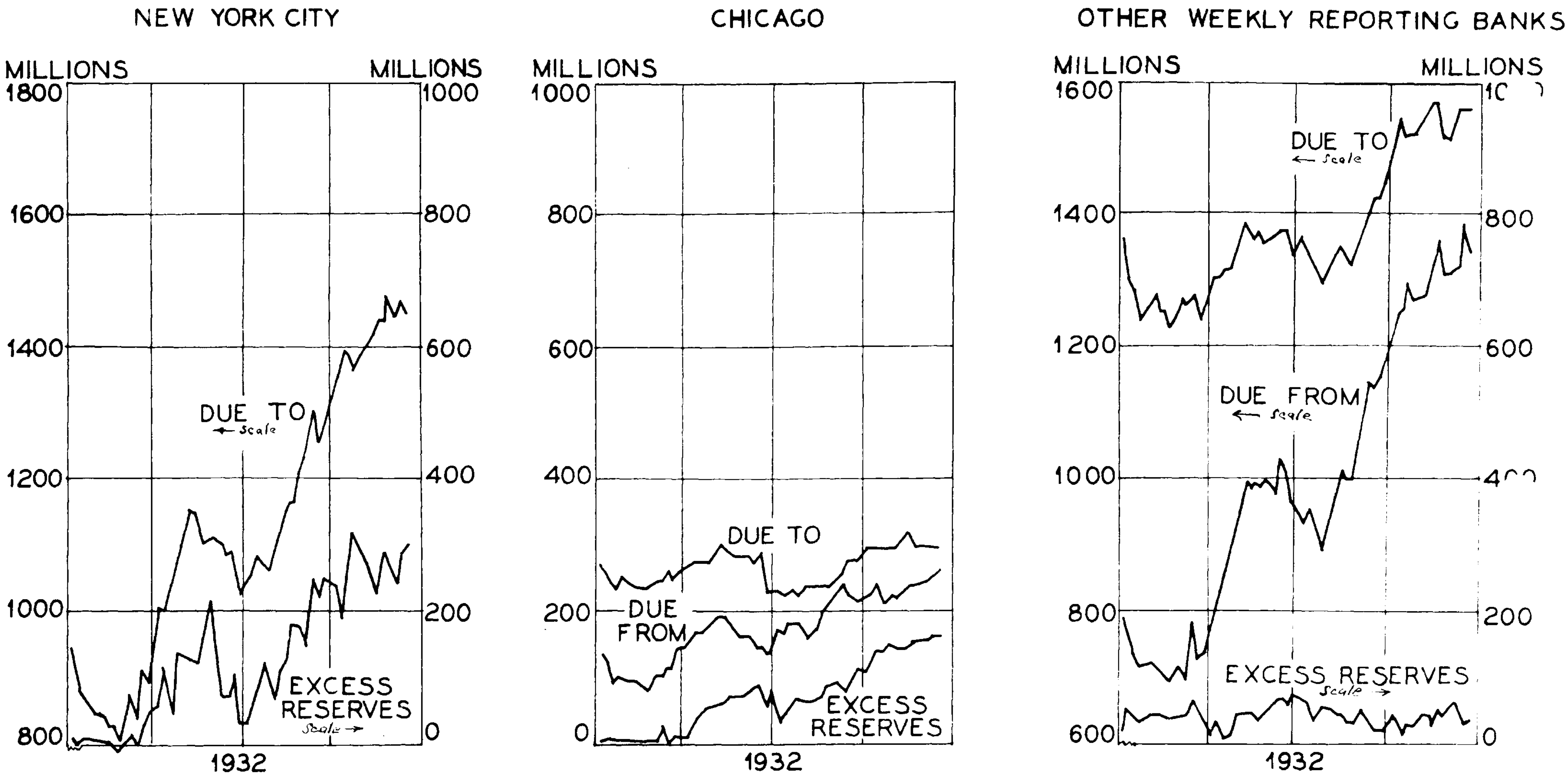
1884-'85	-	over two years
1893-'94	-	limited rise after at least 1 1/2 years
1896-'97	-	about one year
1908	-	gradual rise within 3 months; more rapid after 1 year
1921-'22	-	about a year after substantial reduction in bank indebtedness

Present and Prospective Reserve Position.

Excess reserves of member banks have generally been maintained since the November meeting of the conference at something above $500,000,000. Christmas currency demands proved smaller than were expected, and gold receipts which included the $95,550,000 debt payment of the British Government were larger than had been expected. Hence the member banks come to the end of the year with between $500,000,000 and $600,000,000 of excess reserves. This figure will be increased after the turn of the year. It remains to be seen how large the return flow of currency will be for we do not know whether the small Christmas takings of currency were due wholly to the depressed conditions or reflected some return of money from hoarding. The gold flow is definitely toward this country. From these two causes a gain to reserves may be anticipated in the next six weeks of anywhere from $200,000,000 to $400,000,000, in the absence of any unusual circumstances.

In determining the effectiveness of any given amount of excess reserves in constituting pressure for the employment of funds several considerations appear important.

(1) Location. Excess reserves are now largely concentrated in New York and Chicago as shown on the attached chart. In both these cities, however, the increase in excess reserves has been paralleled by an increase in amounts "due to banks" so that the excess funds really represent largely funds of out-of-town banks and the pressure to put these funds to work rests not alone on the New York and Chicago banks but on the banks generally throughout the country. The excess



Excess Reserves and Amounts Due to Banks and Due From Banks
of Weekly Reporting Banks in New York City, Chicago, and Other Centers

of reserves is thus widespread in its influence.

(2) Time. The experience of the past summarized in a previous chart indicates that the effectiveness of excess reserves depends in part on the length of time they are hold. In previous periods of depression it has frequently taken six months to a year for very large amounts of excess reserves to find reflection in business.

(3) Assurance of Continuance. The use of reserves depends in part on the confidence the banks feel in their continuance. In the pre-war days it was believed that excess reserves would continue until they were used; there was no mechanism for absorbing them. In recent months there has been uncertainty as to the effects on excess reserves of Federal reserve policy or possible demands upon the banks.

Foreign Influence.

During the year influences from abroad have been important and at times dominating. Early in the year gold withdrawals were disturbing. When the gold movement turned, strengthening our position but weakening the European position, depreciating exchanges became a depressing influence on world prices as noted above. The debt uncertainties were a disturbing influence second only to the political campaign.

Debts, Prices, and Recovery.

While the financial and business situation shows now a considerable improvement from the position of mid-summer the improvement is not sufficient and the direction of movement is not sufficiently well established to assure a solution to the major economic problem which confronts this country and other countries as well. That problem is whether the economic structure must be readjusted to conform to something like the present price level and volume of business or whether we may expect in a reasonable period of time sufficient advance from the present price level and sufficient resumption of business activity so that a general readjustment of debts will not be necessary.

The condition of panic which prevailed last spring has been checked but the critical problem of prices and debts remains. It is clear that a continuance of the present price level and the present volume of business activity would involve a vast readjustment of the entire debt structure, including readjustment of a number of banking situations. The question arises whether the "grinding process" of ~~deflation of recent months~~ must continue or whether it would be preferable to move decisively either for a more rapid deflation or for some measure of inflation. The improvement which took place from mid-summer into the autumn gave some reason to hope that recovery might go far enough and rapidly enough to relieve greatly the weight of debts. The question now is whether that recovery can be resumed or not. The question is complicated by widespread public and political interest both in this country and abroad so that every decision in the field becomes in some sense a political question.

Mr Carpenter

333.-C-2

December 28, 1932.

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 Governor Meyer's recent telephone conversation with you in which he advised that, in accordance with the understanding at the meeting of the Open Market Policy Conference on November 15, 1932, that another meeting of the Conference should be held during the first week in January, the Federal Reserve Board has approved Wednesday, January 4, 1933, as the date for the meeting.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

SRC/acw

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