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NAME OR SUBJECT

Federal Open Market Committee Open Market Operations

DATES (Inclusive)

Oct - Dec 16 1935

PART NUMBER

Part 3

C O P



FEDERAL RESERVE BANK OF KANSAS CITY

November 24, 1956.

Mr. M. S. Eccles, Chairman, Board of Governors Federal Reserve System, Washington, D. C.

Dear Mr. Eccles:

There seemed to be no opportune time during the recent meeting of the Federal Open Market Committee for me to express my opinion with reference to open market operations or member bank reserve requirements, and I am taking the liberty of giving my views by letter.

While the responsibility with reference to member bank reserve requirements is wholly upon the Board of Governors, nevertheless discussion of the subject was invited, particularly on the part of the bank representatives on the Open Market Committee.

I was impressed with the statement made by Dr. Goldenweiser that raising the reserve requirements on country banks to the limit permitted would be of relative unimportance, as the total would amount to three to four hundred million dellars and only to that extent would it affect the amount of excess reserves. While with few exceptions the country banks in the tenth district could meet the additional reserve requirements without liquidating bond accounts or borrowing from the Federal Reserve Bank, nevertheless most country banks find it desirable to maintain a substantial account with some friendly reserve city correspondent. Such banks would not deem it advisable to carry their total reserve balance with the Federal which might be necessary to avoid borrowing money for reserve purposes. Additional reserve requirements would tend to put member country banks at a further disadvantage in competition with nonmember banks, and might in some instances influence their withdrawal from the system. It would be a further handicap in obtain new State member banks, and I for one hope that an increase in reserve requirements when made effective be not applied to country banks.

Concerning Open Market Operations.

I feel that there is a great deal of merit in the suggestion that something be done in the near future. I feel, of course, that no action should be taken prior to the December financing, but at any convenient time thereafter it would be desirable to let some of our bills run off if only for the psychological effect of getting the public and the banks accustomed



Mr. M. S. Eccles

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to the operation. The open market account has remained static so long that unless the public is made accustomed to some changes in the total holdings in the account, with an accompanying explanation that such changes do not represent a reversal of policy, I fear that when the time comes to use this method of credit control the shock and repercussions will be greater than we would anticipate and be so extensive as to be undesirable.

I believe Mr. Ransom made the statement that he had not fully made up his mind as to whether or not it was desirable to have the shock as great as possible in order to make the open market operations more effective, but I believe there could be danger in too great a shock. There is no doubt that many banks are watching the system's holdings with the idea of dumping whenever there is a change made in our policy, and I for one do not believe that a wholesale dumping of securities would be desirable or in the public interest.

A careful engineer tests his air brakes a mile or two before reaching a stopping place, and I feel that such a test should be made of our open market authority from time to time. A few banks might become littery when such a test is made, but the best time to find out what the results might be would be when the bond market is strong as it is at this time. A convincing statement could be made to accompany the running off of a few millions of bills that this does not constitute a reversal of policy and we would always step in and reverse the action if the repercussions were greater than expected. In any event I feel that it is worth attempting and I believe the experiment would be more effective if made in a small way both before and after reserve requirements are raised.

Yours very truly,

(signed)

Geo. H. Hamilton

Geo. H. Hamilton.

ens.

P. S. After dictating the above statement a letter was received from a member bank, copy of which is enclosed herewith.

This banker is more articulate than most country bankers, but in a general way I think he expresses the views of most of them. At that he is in a little different situation from the smaller banks in the smaller towns as their holdings of Governments are almost entirely in bonds. These little fellows are more concerned with the bond market than the Joplin banker is, as he is in a short term position and to that extent I believe they are more susceptible to panic, unless they are made accustomed to some open market action by the Open Market Committee.

(initiated) G. H.

COPY

JOPLIN NATIONAL BANK & TRUST COMPANY

Joplin, Missouri, November 23, 1936.

Mr. George H. Hamilton, President, Federal Reserve Bank, Kansas City, Mo.

Dear Mr. Hamiltons

I have noted with some interest in the daily press a suggestion that the Federal Reserve Board had under consideration the proposition to further increase reserve requirements for member banks. I sincerely hope such action will not be taken or if it does, it will not be made to apply to the general run of country institutions.

A country bank like the Joplin National, has nothing to do with the matter of increase in gold reserves. It seems to me this proposition affects the large banks at the money centers directly and the smaller banks much less, if any, and in a very indirect manner. I sympathise with the efforts of the Federal Reserve Board and the Federal Reserve System to control runsway sarkets in securities and commodities. From the standpoint of a country bank, however, it would seem to me that having already made a 50% increase in reserves for member banks, it would be fair to now try out the alternative of selling United States bonds in order to influence the market.

You realize, of course, that in our case as with all banks of like character, we are confining ourselves largely to short tarm, low rate investments. The commercial demand has shown a slight improvement but nothing material as yet. We are vitally interested in protecting our capital funds from depreciation when the ultimate increase in interest rates comes and brings along a depreciation in longer term securities. This being true the only chance we have to maintain earnings at all is through an increase in volume. Our deposits show a substantial increase but if reserve requirements were again substantially raised, it would limit our resort to this procedure in what seems to me a very serious way.

I am writing you with the hope that you may appreciate and see some merit in my argument and if so, that you may communicate a viewpoint of at least one country banker, to be Federal Reserve authorities in such manner as you may see fit.

With very kind regards, I am

Sincerely yours,

(Signed) J. E. Garm

J. E. Garm, President.

Digitized for FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis

340:01-E-Comber 16, 1985.

Mr. Nyatt, General Counsel
Mr. Hackley, Law Clerk.

Whether members of new Federal Open Market Committee will be required to take oaths of office.

I. QUESTION PRESENTED

Under section 12A of the Federal Reserve Act as amended by the Eanking Act of 1935, the Federal Open Market Committee after March 1, 1936, will consist of the members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks. The question arises whether the members of the new committee will be required under the law to take out s of office.

II. OPTRION

In the opinion of the undersigned, all the members of the new Federal Open Market Committee will be officers of the United States and will therefore be required to take oaths of office.

III. CONSTIT TICHAL AND STAT TORY PROVISIONS.

Article VI, paragraph 5, of the Constitution of the United States provides as follows:

"The Senators and Representatives before mentioned, and the Members of the several State Legislatures, and all executive and judicial Officers, both of the nited States and of the several States shall be bound by Oath or Affirmation, to support this Constitution; but no religious Test shall ever be required as a Qualification to any Office or public Trust under the United States." (Inderscoring supplied)



The United States Code, title 5, section 16, provides as follows:

"The oath to be taken by any person elected or appointed to any office of honor or profit either in the civil, military, or naval service, except the President of the United states shall be as follows: "I, A B, do solernly swear (or affirm) that I will support and defend the Constitution of the inited States against all enemies, foreign and domestic; that I will bear true faith and allegiance to the same; that I take this obligation freely, without any montal reservation or purpose of evasion; and that I will well and faithfully discharge the dities of the office on which I am about to enter. So help me God. T is section shall not affect the oaths prescribed by existing statutes in relation to the enformance of duties in special or particular subordinate offices and employments.

In addition to the general provisions of this section of the Code, there are numerous provisions of law specifically requiring that section officers of the United States take onths of office before entering upon their duties. For example, the cath of office is expressly required to be taken by the members of Congress (%S.C., title 2, sec. 21, 25); directors and officers of the Reconstruction Finance Corporation (U.S.J., title 5, sec. 603); the Comptroller of the Currency (J.S.C., title 12, sec. 3); members of the Federal Tome Loan Bank Board (U.S.C., title 12, sec. 1437); and members of the Board of Governors of the Federal Reserve System (T.S.C., title 12, sec. 242).

With respect to the organization of the new Federal Open Market Committee, section 12A of the Federal Reserve Act as amended by the Banking Act of 1935, provides as follows:

"There is hereby created a Federal Open Market Committee (hereinafter referred to as



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the 'Committee'), which shall consist of the members of the Board of Covernors of the Federal Reserve System and five representatives of the Federal Reserve banks to be selected as hereinafter provided. Such representatives of the Federal Reserve banks shall be elected annually as follows: One by the boards of directors of the Federal Reserve Banks of Boston and New York, one by the boards of directors of the Federal Reserve Banks of Philadelphia and Cleveland, one by the boards of directors of the Federal Reserve Banks of Chicago and Saint Louis, one by the boards of directors of the Federal Reserve Banks of Richmond, Atlanta, and Dallas, and one by the boards of directors of the Federal Reserve Banks of Nimmespolis, Kansas City, and San Francisco. An alternate to serve in the absence of each such representative shall be elected annually in the same manner. The meetings of said Committee shall be held at Washington, District of Columbia, at least four times each year upon the call of the chairman of the coard of Governors of the Federal Reserve System or at the request of any three members of the Committee."

IV. DISCOSSION

(A) Numbers of the Committee must take oath if "officers of Cnited States"

Since the law does not specifically require that the members of the new Federal Open Market Committee shall take oaths of office, such a requirement must be found either in the provision of article VI of the Constitution or the previsions of section 16 of title 5 of the United States Code.

The courts apparently have had no occasion to construe the constitutional prevision which requires every judicial or executive officer of the United States to take an eath to support the Constitution. However, it is not believed that that provision slone would be sufficient

to require the members of the new Federal Open Market Committee to take oaths of affice since, as will be indicated later in this memorandum, they will not be "afficers of the United States" within the meaning of the Constitution. Accordingly, the question must be determined from a consideration of the provisions of section 16 of title 5 of the United States Code.

Section 1 of title 5, chapter 4, of the United States Code provides that the provisions of that chapter shall apply to "the following executive departments" and the executive departments of the Government are listed. Since section 16 of title 5 is a part of that chapter, it may be argued that that section is applicable only to the executive departments and would therefore not apply to independent agencies such as the Federal Open Market Committee. However, the two sections were not parts of the same statute and it is believed that section 16 is applicable, as it in terms so states, to "any person elected or appointed to any officer of honor or profit". Moreover, it may be noted that the Atterney General of the United States has held that the section is applicable to members of Congress (17 Op. Atty. Gen. 419) and they cannot be regarded as officers of an executive department.

It seems clear that the statute here in question does not apply to all employees of the Government; but is applicable only to persons who may be regarded as "officers of the United States." Thus, as

early as 1888, the Attermay General of the United States held that a similar statute (since repealed) did not include persons in the service of the Government who may be called employees, as contradistinguished from officers of the United States. 12 Op. Atty. Ocm. 581.

Purthermore, the very fact that an eath of office is required has been regarded as one of the circumstances distinguishing an "officer" from an "employee". United States v. Germaine, 99 U.S. 508, 502 (1878);

Martin v. United States, 168 Fed. 198 (C.C.A. 8th, 1909); Metcalf & Eddy v. Mitchell, 269 U.S. 514 (1925). In view of these authorities, it seems unnecessary to determine whether the members of the new Federal Open Market Committee will be "employees" of the Government. The statute is applicable only to officers of the United States and the members of the new Committee will be required to take oaths of office only if they may properly be regarded as such officers.

(B) Members of the Committee will not be "officers of the United States" in the sense of the Constitution.

Apparently the courts have not had oscasion to determine definitely who are "efficers" within the meaning of the statute here under consideration. Lowever, the Attorney General has declared that postmasters, in common with all other officers of the United States except the President, are required to take the oath of office prescribed by this statute. 18 Op. Atty. Gen. 181, 182 (1885). He has also ruled, with respect to a similar statute emacted in 1862 and repealed in 1885, that clerks in the executive departments (12 Op. Atty. Gen. 521) and



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eath prescribed by that statute. However, in no reported case or decision of the Atterney General has there been a discussion of the question whether persons designated as the members of the new Committee will be designated are "efficient of the United States" within the meaning of the statute here under consideration or within the meaning of any other statute.

The new Federal Open Market Committee will be constituted in an unusual and apparently unprecedented method. Five of the members of the Committee will be selected by the Federal Reserve banks. The other seven members of the Committee will also be members of the Board of Governors of the Federal Reserve System. In the latter capacity they will be "public officers" of the United States (50 Op. Atty. Gen. 508). That fact alone, however, would not make them officers of the United States in their capacity as members of the Federal Open Market Committee. In this connection, it may be noted that in 1907 the Attorney General held that where the Commissioner of Labor was appointed to membership on the Immigration Commission, he was not appointed to another "office" within the meaning of a statute prohibiting the holding of more than one lucrative "office". 26 Op. Atty. Gen. 247. His opinion was based en the fact that the duties of the members of the Immigration Commission were not of a continuing and permanent nature and that they were. therefore, net officers. This decision indicates that the question whether the members of the new open Market Committee will be officers of the United States must be determined without regard to the fact that

they may already be officers of the United States in another capacity.

In the absence of authorities discussing the status of persons designated in the manner in which the members of the Committee will be designated, it is necessary to examine the decided cases with respect to the general meaning of the phrase "officers of the United States".

With respect to the appointing power of the President, Article II, section 2, of the Constitution of the United States provides as follows:

"" " he [the President] shall nominate and by and with the advice and Comment of the Senate, shall appoint Ambassadors, other public Ministers and Consuls, Judges of the supreme Court, and all other Officers of the United States, whose Appointments are not herein otherwise provided for, and which shall be established by Law; but the Congress may by Law vest the Appointment of such inferior Officers, as they think proper, in the President alone, in the Courts of Law, or in the Heads of Departments."

In view of this provision, the Supreme Court of the United States has uniformly held that a person can be regarded as an "officer of the United States" in the sense of the Constitution only if he is appointed by the President, by and with the advice of the Senate, or by a court of law or head of a department. United States v. Germine, 99 U. S. 508 (1878); United States v. Mouat, 124 U.S. 505 (1888); United States v. Smith, 124 U.S. 525 (1888); Burmap v. United States, 252 U.S. 512 (1920). This so-called "constitutional" definition of an "officer of the United States" has been strictly applied, although it has been interpreted as including persons appointed by an inferior officer of an executive department with the approval of the head of that department (United States v. Hartwell, 75 U. S. 585 (1867); Woodford v. United States, 77 Fed. (2d) 861

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(C.C.A. 8th, 1935)), provided such appointment is expressly authorised by law (United States v. Mouat, supra).

clearly, the members of the New Federal Open Market Committee selected by the Federal Reserve banks will not be appointed by the Fresident, the head of a department, or a court of law. It is true that members of the Committee who will also be members of the Soard of Covernors of the Federal Reserve System will have been appointed by the President with the advice and consent of the Senate; but their appointments will have been to membership on the Board of Governors and not to membership on the Federal Open Market Committee. In so far as they will be members of the Committee, they will hold their positions as the result of direct legislative appointment, and not as the result of appointment by the President or the head of a department.

It seems obvious, therefore, that the members of the new Federal Open Market Committee will not be "officers of the United States" in the constitutional sense, since their offices will not be derived from any of the sources mentioned in the Constitution.

(C) The statute includes "officers of the United States" in the broad sense of the term.

In <u>United States v. Mouat</u>, 124 U. 8. 505 (1888), the Supreme Court held that a paymaster's elerk appointed by a paymaster in the Navy was not an efficer of the Navy within the meaning of a statute allowing benefit of mileage, since the elerk did not fulfill the constitutional definition of an efficer. On the same day, however, the Supreme Court held that such a paymaster's

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elerk was an "efficer" of the Navy within the meaning of a statute relating to the lengevity pay of officers and enlisted men in the Army and Navy. United States v. Hendee, 124 U. S. 309 (1888). In justifying this conclusion, the court said:

We have just decided, in the case of United States v. Mount, ante, 303, that a psymmeter's clork is not, in the constitutional sense of the word, an officer of the United States; but we added also that Congress may have used the word 'efficer' in a less strict sense in some other connection, and in the passage of certain statutes might have intended a more popular signification to be given to that term.

"" * * We are of opinion that the word 'efficer' is used in that statute [the one under consideration in this case] in the more general sense which would include a paymaster's clerk; that this was the intention of Congress in its enactment, * * *."

similarly, the term "officer of the United States" was given a broad connotation in Steele v. "nited States No. 2, 267 %. S. 505 (1925). That case was an appeal from a conviction for unlawfully possessing intoxicating liquors in violation of the National Prohibition Act. The defendant contended that since the warrant under which he was arrested was issued to a general prohibition agent, it was not issued to a "civil officer of the United States" as required by the law. It was held, for reasons not here material, that that question was resadjudicate as to the defendant; but the court took the occasion to refute the defendant's contention that the prohib tion agent was not an efficer of the United States, and in this connection stated:

"* * * It is quite true that the words 'officer of the United States', when employed in the statutes of the United States, is to be taken usually to have the limited constitutional meaning. * * * But we find that this Court in consideration of the con-

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text has sometimes given it an enlarged meaning and has found it to include others than those appointed by the President, heads of the departments, and courts". (267 U. S. at page 507)

On the authority of this case, prohibition agents, although not appointed in any of the methods mentioned in the Constitution, have been held to be "officers of the United States". Carvalho v. United States, 54 Fed.

(2) 232 (C.C.A. 1st. 1931).

In view of these decisions, it appears that a person may be regarded as an "officer of the United States" within the meaning of certain statutes, although he is not such an officer within the strict constitutional sense. Accordingly, two questions are suggested: (1) whet'er the statute here under consideration requiring oaths of office applies to "officers of the United States" within the broad meaning of the term as well as within the meaning of the Constitution; and (2) if so, whether the members of the Federal Open Market Committee will be officers of the United States in this broad and popular sense.

of the statute. It is expressly applicable to persons "elected or appointed" to any office of honor or profit; and since the constitutional definition appears to include only persons who are appointed to office it would not seem to be contemplated by the statute. Moreover, it may be noted that those cases in which the Supreme Sourt of the United States applied the strict constitutional definition were cases involving the construction of criminal statutes. The statute here under consideration is not a criminal statute and need not be strictly constitued. Accordingly, it is believed that the statute may properly be construed as including persons

who are "officers" in the usual sense of the term; and it remains therefore to determine whether the members of the Committee will be "officers" within that meaning of the term and without regard to the strict constitutional definition.

(D) Members of the Committee will be "officers of the United States" within the broad sense of the term.

In the first place, it seems to be well settled that in order for a person to be an officer he must hold a public position created or provided for by the Constitution or by law. Haight v. Commissioner, 52 Fed. (2d) 779 (C.C.A. 7th, 1931); Metcalf & Eddy v. Hitchell, 269 U.S. 514 (1925); United States v. Galbreath, 8 Fed. (2d) 360 (D.C.Calif. 1925). With respect to this requirement, there would seem to be no difficulty in the present case. The members of the Committee will hold office expressly created by a statute of Congress.

A fundamental characteristic of a public officer is that he exercises some portion of the sovereign functions of Government for the benefit of the public. People v. Brady, 302 III. 576, 125 N.E. 87; State v. McLaurin, 131 So.89,90 (Miss. 1930). The members of the Committee will exercise an extremely important governmental function in regulating open market operations and indirectly controlling credit conditions.

Another of the characteristics of an officer, as distinguished from an employee, is that he performs duties which are prescribed by law.

Bowden v. Cumberland Co., 125 Atl., 186, 169 (Me. 1924); United States v.

Schlierhols, 137 Fed. 616 (D. C. Ark., 1905); People v. Brady, supra.

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The members of the new Committee are required to prescribe regulations governing the open market transactions of Federal Reserve banks and they will therefore perform duties clearly prescribed by law.

In United States v. Bartwell, 75 U.S. 385 (1867) the Supreme Court of the United States declared that the term "officer of the "nited States" embraces "the idea of tenure, duration, emplument, and duties". The idea of duties has already been mentioned. However, in order for a person to be an "officer" in the proper sense of the word, his duties must be of a continuing and permanent nature, i.e., his office must possess the elements of tenure and duration. Thus, in United States v. Germaine, supra, after holding that a civil surgeon appointed by the Commissioner of Pensions was not an officer within the constitutional definition of the term, the Supreme Court considered the nature of the surgeon's employment and found that his duties were not of such a continuing and permanent nature as to constitute him an efficer. It has previously been noted that the Attorney General has ruled that a member of the Immigration Commission was not an "officer" since his duties on that Commission were of a temporary nature. 26 Op. Atty. Gen. 247 (1907). For the same reason, a Federal court has held that a person appointed to a court of condemnation to determine the value of certain waterworks property was not an "officer" because the purpose of that court was temperary only. Des Moines Water Co. v. City of Des Moines, 206 Fed. 657 (C.C.A. 8th, 1913). Similarly, in Flowing v. Bowers, 11 Fed. (24) 789 (8.D. N.Y. 1926), a receiver appointed by a Federal court to take over the assets of a corporation was held not to be an officer of the

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United States on the ground, among others, that the period during which he was to not definitely fixed.

would appear to be of a continuing and permanent nature since they are required to issue regulations governing open market operations, procumably not for a particular occasion, but from time to time during the period of their terms of effice. The fact that they are required to meet only four times a year would not seem to affect the continuing and permanent nature of their duties. Moreover, their terms of effice are definitely fixed by the law, imagenich as those members of the Committee elected by the Federal Reserve banks will be reclected annually, and those members who will also be members of the Board of Governors will serve for the period for which they are appointed to membership on that Board.

has been mentioned among the characteristics of an "officer". United

States v. Fartwell, supra; United States v. Germaine, supra; United States
v. Schlierhols, supra; Floming v. Bowers, supra. However, it has been held
that the receipt of a salary is only one of the indicia of an office and
is not a necessary part of it. Ramsay v. Van Meter, 500 III. 195,
153 N.E. 195 (1921); People v. Brady, supra; 46 C.J. 931. Moreover,
the statute here under consideration is by its terms applicable to a
person elected or appointed to any office of "honor or profit", and it
would therefore seem to include persons who receive no salary or emolu-

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ment. Accordingly, the fact that the members of the Committee will not be entitled under the law to any salary or compensation would not appear to prevent them from being regarded as "officers of the United States".

In some cases, there has been language indicating that an cath of effice and an official bond must be required by law to constit to a person a "public officer". Thus, in <u>United States v. Cormaine</u>, supra, in holding that a civil surgeon appointed by the Commissioner of Pensions was not an "officer of the United States" within the meaning of a criminal statute, the Suppose Court said:

"He gives no bond and takes no official oath, unless by some order of the Commissioner of Pensions of which we are not advised."

Likewise, in Foshay v. United States, 54 Fed. (2d) 668 (D.C. N.Y. 1931), a post office clerk was held to be an officer of the "nited States because he was appointed by the "ead of a department and because he was required to take an oath and make a bond. However, it seems obvious, without furt er comment, that the taking of an oath and the giving of an official bond merely result from the status of a "public officer" and are not pre-requisites to that status.

In at least one instance, a State court has held that members of a commission created by State law could not be regarded as "officers" within the meaning of the provision of the State constitution requiring cat s of office. Clark v. Harford Agricultural and Greeders' Asso.,

118 Md. 608, 85 Atl. 503 (1912). The decision was based on the ground that the members of the commission could exercise no powers except

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as a <u>commission</u> and that to be a public officer a person must necessarily act in his individual capacity. However, it seems to be well settled that a person may be a public officer notwithstanding the fact that he is a member of a commission, board, or committee. See <u>State v. Board</u> of Examiners, 52 Mont. 91, 196 Pac. 124 (1916); 30 Op. Atty. Gen. 308; 26 Op. Atty. Gen. 247.

In the light of the foregoing discussion, it is submitted that the members of the new Federal Open Market Committee will be "public officers" within the usual, as distinguished from the constitutional, meaning of that term, since they will be persons designated by law to hold, for definitely fixed terms, positions involving the excreise of a governmental function and the performance of prescribed duties of a continuing and permanent nature. It is believed, therefore, that they are to be regarded as "officers of the United States" within the meaning of section 16 of title 5 of the United States Code and that they will be required to take the eath of office prescribed by that section.

The fact that the members of the Board of Gevernors will already have taken one eath of office would not seem to make it unnecessary for them to take a second oath of affice upon assuming their duties as members of the Federal Open Market Committee. The eath of office prescribed by section 16 of title 5 of the United States Code contains the following lenguage:

". . . And that I will well and faithfully discharge the duties of the office on which I am about to enter. . "

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This language clearly indicates that the oath must be taken with respect to each particular office which a person might hold. In this connection, it may be noted that the Attorney General has ruled, in construing the almost identical provisions of a statute since repealed, that that statute contemplated that the oath should be taken at every new appointment before entering upon the duties of office; and it was therefore held that the incumbent of the office charge d'affaires to a foreign country was required to take a new oath of office upon his appointment to the position of minister to that country. 19 Op. Atty. Gen. 219 (1889).

A word should be said with respect to the effect or failure to take the oath of office prescribed by the statute. No penalty is prescribed for such failure. The Attorney General has expressed the opinion that the taking or an official oath is a prerequisite to the receipt of a salary and to entering upon official duties. 19 Op.Atty.Gen. 219, 221. In view of the fact that the members of the Committee will receive no salary, failure to take the oath of office would not be important in that respect. However, since the taking of an official eath of effice is regarded as an acceptance of the office comferred (Archer v. State, 74 Md. 445, 22 Atl. 8 (1891); Poore v. United States, 49 Ct. Cl. 192 (1914); 19 Op. Atty. Gen. 285 (1809)), it would seem advisable for any person required by law to take an oath of office to easily with that requirement in order that there may be no question as to his legal acceptance of the office.

(E) Conclusion.

The fellowing prepositions are submitted by way of summary

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and conclusion:

- (1) Under section 16 of title 8 of the United States Code, every "efficer of the United States" except the President, elected or appointed to any office of honor or profit, is required to take the eath of office prescribed by that section.
- (2) The members of the new Federal Open Market Committee will not be "efficers of the United States" within the strict constitutional meaning of that term.
- (5) The statute covers persons who are "officers" within the usual and popular meaning of the term as well as within its constitutional definition.
- (4) The members of the new Committee will be "officers of the United States" within the usual meaning of the term and will therefore be required to take the eath of office prescribed by the statute.

Respectfully,

Howard H. Hackley, Law Clerk.

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Authority EXOrder 19356



FEDERAL RESERVE BANK OF NEW YORK



December 16, 1935.

Dear Governor Eccles:

As I believe you know, the board of directors of this bank has devoted the major part of its consideration of matters of credit policy, during the past year or more, to the questions created by the tremendous expansion of this country's monetary gold stock, and by the consequent increase of excess reserves of member banks, since January 1934. A memorandum adopted by our board of directors in March 1935, as an expression of its then existing views, was, I believe, transmitted to your Board and, in October, a statement of views which had been thoroughly discussed here was made the so-called preliminary memorandum for submission to the Federal Open Market Committee at its meeting on October 22, 1935.

These questions naturally have continued to occupy the attention of our directors since that time, and today a special meeting of the directors was held for the sole purpose of considering a memorandum on the subject of Excess Reserves and Federal Reserve Policy which had been prepared as a result of earlier discussions. At that meeting this memorandum, copy of which is enclosed, was unanimously adopted as an expression of the present views of our board of directors.

In transmitting this memorandum to you, in accordance with the wishes of our directors and in the belief that your Board is interested in receiving such expressions of opinion from the individual reserve banks, I should emphasize that this is a statement of present views which, of course, might be altered by changing circumstances in the future.

Faithfully yours,

George L. Harrison,
Governor.

Honorable Marriner S. Eccles, Chairman, Board of Governors of the Federal Reserve System, Washington, D.C.

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EXCESS RESERVES AND FEDERAL RESERVE POLICY

At its meeting on October 22 - 24 the Open Market Committee considered the problem of excess reserves, the possible methods of dealing with the problem, and the question of the timing of any action that might be taken. Since that time these questions have been discussed by the Board of Governors, and also by the Federal Advisory Council, which has presented to the Board a statement of its views with a request that the statement be transmitted to the Federal Open Market Committee. There has also been considerable public discussion of the problem.

In considering the questions involved, it is important to bear in mind that the growth of excess reserves has embraced two distinctly different phases. In 1932 - 33 the Reserve System was actively pursuing a policy, first of getting the member banks out of debt to the Reserve Banks, and then of creating excess reserves. By open market purchases of government securities it created excess reserves amounting by January, 1934, to \$ 900,000,000. This great volume, until then unprecedented, was generally regarded as adequate to accomplish whatever desirable effects, toward stopping deflation and assisting recovery through credit expansion, might reasonably be expected from excess reserves, particularly as they were by that time well distributed throughout the country, and not, as in 1932, merely concentrated in the big city banks. The security purchases were therefore brought to an end in November, 1933, and since that time the Reserve Banks have simply maintained their security portfolio at about its current volume of \$2,400,000,000,

In February, 1934, however, following the devaluation of the dollar, there began a wholly new phase of growth of excess reserves, which has continued to the present time and is still continuing. In this second phase the Reserve System

Copy filed 333.3-a-1 12-17-35 mesting under date of 2-13-35

has played no part. The spectacular increase of excess reserves from \$900,000,000 in January, 1934, to \$3,300,000,000 at the present time has been wholly due to gold inflow, which in the past two years has amounted to \$2,900,000,000.

As we have observed this enormous increase in excess reserves, to a figure far beyond what the System had had in view, two questions have arisen in our minds. First, by what means could the Reserve System under these circumstances, entirely unprecedented in the history of central banking, exercise its responsibility for bank reserves and the control of credit, when the time for action came? Second, what, under conditions like the present, is the appropriate time for action?

has been developed since the War, is by open market operations. But this method, by itself, would in the present circumstances be both inadequate and impracticable. Even though the Reserve Banks should dispose of their entire portfolio there would still be left a substantial margin of excess reserves, without taking into account the further increase in such reserves through continued inflow of gold. Incidentally, such an operation would entirely deprive the System of earnings, since it now has virtually no other earning assets. It has been computed that at the level of interest rates obtaining in 1925 and 1926 the Reserve Banks would need to retain about half of their present earning assets to cover their expenses.

Recognizing the inadequacy of open market operations, by themselves, for dealing with excess reserves of the present magnitude, the Banking Act of 1935 gave to the Board of Governors of the Federal Reserve System the power to increase the reserve requirements of member banks to not more than double the present requirements. The question which we now face is not whether the System should use one or the other of these powers, the open market operation or the increase of reserve requirements, since for a complete control it will probably be necessary to use both. The real questions are in what order they should be used and when.

The increase of reserve requirements ought logically to precede the open market operation. As has been pointed out in our previous discussions, and as is remarked by the Federal Advisory Council in its recent statement, these two methods of control are quite unlike in nature and in purpose. The open market operation is a highly flexible instrument, permitting of continuous adjustment to the conditions and needs of the banks and the general economic situation. The alteration of reserve requirements would represent, on the other hand, a fundamental readjustment, whose chief purpose would be to bring the reserve situation once again within a range where short-period changes could be effected by openmarket operations, rather than by periodic changes in reserve requirements. put the matter concretely, if we should begin with the open-market operation, we would then be forced to make the short-period adjustments by continuous alterations Considering the fundamental nature of reserve requireof reserve requirements. ments, the difficulties of foreseeing their effects upon the position of individual banks or classes of banks, the very grave hazards to which banking would be subject if continually in fear of alterations of reserve requirements, it is surely to be hoped that this method will be resorted to only at rare intervals and only when, under conditions like the present, it is necessary to make a fundamental readjustment of the credit base.

There is, moreover, a further, and a decisive, reason under the present circumstances for dealing with the excess reserve problem in the first instance by raising the reserve requirements. Our present problem has its origin, as already stated, in gold imports. The gold imports of the past two years, though larger than in any equal previous period, represent a continuing phase of a movement which began with the World War. If we go back to 1917, when the present reserve requirements of the member banks were enacted, we find that the total gold stock of the country has grown from \$2,800,000,000 to approximately \$10,000,000,000 at the

present time, and that the reserves of the Federal Reserve Banks have grown from \$1,200,000,000 to \$7,400,000,000. In the same period the reserves of the member banks have grown from about \$1,500,000,000 in 1917 to \$2,400,000,000 in 1929 and \$6,000,000,000 at the present time, the last total including \$2,700,000,000 of required reserves and \$3,300,000,000 of excess reserves.

In other words, our gold stock in the past eighteen years has more than trebled; and it seems clear that even if we make a generous allowance for secular growth, our gold stock has at least doubled as compared with what in the earlier period was regarded as adequate for the support of our credit structure. therefore, not surprising that member bank reserves have also, by reason of this large and persistent inflow of gold, developed a large excess of actual reserves over their legally required reserves. The only alternative, according to generally accepted theory, would be such an expansion of bank deposits as would use up the excess reserves, and such a rise of our price level accompanying that expansion as would halt the inflow of the gold itself. When we consider that the present excess reserves would support bank credit of from \$30,000,000,000 to twice that amount, and that the resultant rise of prices would therefore assume the proportions of a major inflationary movement, such as has always proved uncontrollable, it becomes apparent that the only practicable and desirable solution is an alteration of reserve requirements. Must we not, in particular, recognize that the devaluation of the dollar carried with it, as one of the necessary conditions of its successful operation, the need for a fundamental readjustment of reserve requirements? there not, in other words, be an adaptation of reserve requirements to our new gold base?

There remains the question of the timing of the System's action. The purpose of the excess reserve policy has been to aid recovery, and it is of paramount importance that no action should be taken that would imperil or retard recovery. Up to the present the System's policy has encountered considerable success,

as evidenced first by the cessation of contraction of bank assets, in which the rehabilitation of the capital structure of the banks also played an important part, and subsequently by the increase of bank holdings of government securities, the successful conversion of the government war debt, the large volume of refunding of private corporate issues during the past year, and the improvement of the mortgage market. But two of the most significant and reliable signs of a return to more normal credit conditions have not yet appeared, the flotation in substantial volume of new corporate issues and the expansion of business borrowing from banks, though these, under present conditions, might well be expected to appear only at a later stage of recovery.

In the general economic situation there has been a marked change for the better. There have been genuine indications this year that recovery is under way, and in recent months it has appeared to be proceeding at an accelerated pace. But here also some of the most reliable signs that might convey certainty as to the permanency of the present trend are lacking. Building construction, which has made rapid and substantial improvement in recent months, is still 60 per cent below normal. Recovery cannot be regarded as assured so long as production in the heavy industries, which have been the seat of the depression, still remains substantially below a normal volume. Moreover, unemployment is still very large and the Federal budget is still unbalanced, which means that national production and consumption are not yet on a normal self-sustaining basis.

These facts warrant the conclusion that there is no justification as yet for the System's changing its easy money policy. Nor would it be desirable to take any action respecting excess reserves which might have a harmful psychological effect, even though in intent and in fact the action would not reverse the present policy. From these points of view alone, the time for modification of our easy money policy would not arrive until production has returned to normal, or at least until the present trend toward a return to normal provides unmistakable evidence of

On the other hand, it may well be doubted whether reserves of such magnitude as we have had in the past year, during which excess reserves have increased \$1,500,000,000, to almost double their size a year ago, have been in any way essential to recovery. It appears significant that much the greater part of the fall of interest rates to their present low levels occurred prior to this year, and that short-time money rates and highest grade bond yields, which should most clearly reflect monetary influences, have changed but little from a year ago. It seems very probable that with excess reserves of such extraordinary dimensions there comes a point where further increases have no further constructive effects.

At such a point excess reserves may contain possibilities of positive harm. There is the danger, for example, that excess reserves may give rise to disproportionate bank investment in government securities. There is the danger that banks may acquire government and other bonds at prices which later may not be sustained. There is the danger that with money so freely available, states, municipalities and the national government, and other borrowers as well, may be tempted to over-borrow. There is the general fear which many people entertain that excess reserves of the present magnitude must sooner or later set in motion inflationary forces which, if not dealt with before they get strongly under way. may prove impossible to control. There is the possibility also that the very fact of such inordinately large excess reserves may, by causing foreign expectation of favorable conditions for speculative investment, accentuate the gold inflow which is the real source of our problem.

From this point of view there is much to be said for an increase of reserve requirements sufficient to absorb some substantial amount of present excess reserves. Such a step would reduce the excess reserves to a point where they are more susceptible of being handled, once again, by the usual method of open market operations; it would put them back to the volume of a year ago. As the reserves are now widely distributed among the banks of the country, such an increase of requirements could

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now be carried through with virtually no disturbance to the banks and should not affect either interest rates or the ability or willingness of the banks to expand credit.

It must be borne in mind that the longer action is delayed the greater is the likelihood that some or many banks will have utilized their reserves, rendering the process of reserve adjustment, when it does come, as at some time it must, all the more painful and harmful both to them and to the country. This conclusion applies also against initiation of action through open market operations, whether now or at any future date. The more excess reserves are reduced by open market operations before reserve requirements are raised, the more will inequalities in the distribution of excess reserves among the banks of the country be accentuated and the more disturbing will be the eventual adjustment of reserve requirements.

Such an increase of reserve requirements as has been suggested would represent not an act of credit control, not in any sense a reversal of the present easy money policy, but an act of reassurance to the banks and the country that excess reserves, though still ample for credit expansion, had been brought within the range of control. It would be an act of technical readjustment of our reserve requirements to our new gold base.

There is one further important aspect of the problem of timing. Under conditions like the present, when the Federal budget is unbalanced and the government is still engaged upon a large emergency program of borrowing and spending, there is need for a close coordination of fiscal and credit policy. It would go far toward removing any possible misinterpretation and toward insuring that the corrective adjustment of reserves would have beneficial rather than disturbing effects if that action were accompanied or preceded by steps looking definitely toward the tapering off of budgetary deficits. One fear that has frequently been expressed is that the readjustment of reserves, unless properly timed and properly

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understood by the banks and by the country, might seriously disturb the government bond market, but that would almost certainly not be the case if there were some clear indication that the government's need of new borrowing would definitely diminish. Presumably, early in the new year there will be presented to the Congress a budgetary estimate for the fiscal year 1937. The readjustment of reserve requirements of the member banks would be rendered much more effective, and whatever psychological risk that might otherwise attend it would be avoided, if the forthcoming budgetary estimate should indicate the desirability and the feasibility of tapering off the budgetary deficits, and the purpose of the government now to move toward this objective.

12/13/35.

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Office Correspondence

FEDERAL RESERVE BOARD

Date December 15, 1935.

To Chairman Eccles.

Subject: Re. Maintaining excess reserves

From Lauchlin Currie

at around SEC7DbINIRILES SECTION APR 11.1938,6-852

I have been thinking about your suggestion and several possible disadvantages occur to me. You have probably considered them but in case you have not I shall list them.

- 1. Fixing upon excess reserves on a day when for various special reasons they are much lower than in the immediate past and declaring that they will be held there for the time being may possibly be looked upon as a sort of trick or "clever manipulation". In general, it may be argued that policy should take as simple and understandable a form as possible.
- 2. The figure of \$2.7 billion will receive a disproportionate amount of attention. If excess reserves were to be kept there by open market sales it would not be so bad, but since all member banks will be affected by increased reserve requirements the course of excess reserves may be followed intently and discussed continually with reference to this figure. Action to lower excess reserves below this figure may be a more 'disturbing' development than action taken without reference to any particular figure. It may be interpreted as marking a transition from a "passive" policy to an active policy of restraint. In other words, by setting upon a definite figure we make a commitment on future policy which we may not want to hold to for long and a change will require more explanation.
- 3. An instrument of control that affects all member banks is not flexible and should be used sparingly. To use the reserve requirement instrument to keep excess reserves at a given figure may call for frequent changes (we cannot predict what gold flows will occur in the next few months) and this would be a continual source of irritation to all member banks. If, on the other hand, we let excess reserves go above or below that figure it would require explanation as it would be interpreted as a change in policy.
- 4. Reserve requirements are computed on different days in different sections of the country. Frequent changes might cause considerable inconvenience on this score.
- 5. It can be argued that the justification for raised reserve requirements is that they are a means of adjusting ourselves to the situation created by devaluation. For this purpose a series of sizeable though manageable upward steps are preferable. Open market operations should be the instrument used when flexibility and frequent adjustments are called for.

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I have only listed some of the possible objections that occur to me as I know that you are fully aware of the merits of the proposal. I should like to mention a possible alternative course.

Announce that reserve requirements will be raised on some day in January by 25%. Explain our two objectives (easy money to promote recovery now, prevention of boom later), and point out the customary ease in January due to inflowing currency offers an opportunity to take anticipatory action for the more distant future while interfering in no wise with the present easy-money policy and causing a minimum of inconvenience to member banks. This is as simple and understandable as the thing can be made and it avoids the possible difficulties I mentioned above, while giving us a free hand to take further action in the future along the same lines when occasion warrants.

333 3-

December 10, 1935.

Memorandum for the Files:

Darded

Today Chairman Eccles suggested that there be forwarded to each member of the Federal Open Market Committee a copy of the recommendation submitted to the Board under date of Bovesber 21, 1935, by the Federal Advisory Council on open market operations. I called his attention to the fact that at the meeting of the Board on November 22 it was agreed that copies of the recommendation should not be sent to the members of the Federal Open Market Committee but should be handed to them at the next meeting of the Committee in Washington. Mr. Eccles stated that, inasmuch as the recommendation has been given to the press by someone outside of the Federal Reserve Board he felt the recommendation should be sent to the members of the Federal Open Market Committee at this time. Accordingly, I took the matter up with Messrs. Thomas, Hamlin, James and Miller (Mr. Szymczak being out of the city) and they concurred in the Chairman's suggestion.

Accordingly, a copy of the recommendation is being sent to each member of the Federal Open Market Committee today.

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Form No. 131

Office Correspondence

FEDERAL RESERVE

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To Mr. Goldenweiser

Subject: Estima

change in excess

From L. M. Piser

reserves to January 29, 1936

16-852

Excess reserves of all member banks were \$3,310,000,000 on December 11. During the two weeks ended December 24 it is expected that excess reserves will show a net decline of \$680,000,000, reaching a level of \$2,630,000,000, the lowest since October 2. The principal factor in this decline will be the sale of \$620,000,000 of Treasury securities for cash. Treasury transactions in the aggregate for the two-week period may be expected to take about \$540,000,000 out of the market and payments of money into circulation about \$170,000,000. As an offset against this there may be an increase of about \$40,000,000 in monetary gold stock, so that reserve balances in the aggregate might decline by something over \$650,000,000.

During the following five weeks to January 29 it seems probable that excess reserves will rise again by something like \$720,000,000, bringing the total back to approximately the present high level. Such an increase would constitute approximately 26 percent of the present level of reserve requirements. About half of the increase may be expected to occur during the first two weeks, and the remainder in the last three weeks. Factors in the increase will be a return flow of approximately \$340,000,000 of money from circulation, net Treasury disbursements of about \$350,000,000, and a gradual growth of perhaps \$75,000,000 in monetary gold stock. A partially offsetting factor may be a continued gradual growth in reserve requirements.

TABLE 1
ESTIMATED FACTORS OF CHANGE IN EXCESS RESERVES
(In millions of dollers)

Week ending	Monetary gold stock	Treasury trans- actions	Money in circu-lation	Reserve balances	Reserve require- ments	Excess reserves	Estimated excess reserves
1935 Dec. 18 24 31	+25 +15 +1 5	-580 +40 +70	-70 -100 +120	-625 -45 +205	-5 -5 -10	-630 -50 +195	2,680 2,6 3 0 2,825
1936 Jan. 8 15 22 29	+15 +15 +15 +15	+70 +70 +70 +70	+100 +70 +30 +20	+185 +155 +115 +105	-10 -10 -10 -5	+175 +145 +105 +100	3,000 3,145 3,250 3,350
TOTAL	+115	- 190	+170	+95	- 55	+40	

TABLE 2

ESTIMATED EFFECT OF TREASURY TRANSACTIONS ON EXCESS RESERVES

(In millions of dollars)

Week ending	Cash sales of new issues	Income tax receipts	Interest payments	Other transactions	Net
1935	•				
Dec. 18	-620	-14 0	+90	+90	- 580
24		-50	+20	+70	+40
31				+7 0	+70
1936					
Jan. 8				+7 0	+70
15	****	***	****	+7 0	+70
22				+7 0	+70
29				+70	<u>+70</u>
TOTAL	-6 20	-190	+110	+510	-190

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FEDERAL RESERVE BANK OF NEW YORK

RECEIVED FEDERAL RESERVE BOARD WASHINGTON

1935 DEC 7 AM 11 44

December 6, 1935.

Sirs:

I have for acknowledgment your letter of November 29, enclosing copy of a letter addressed to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Committee at its meeting in Washington on October 22-24, 1955. Your letter and the enclosure were presented to our board of directors at its meeting on December 5, 1935.

Respectfully.

Chairman.

Board of Governors of the Federal Reserve System, Washington, D. C.

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für Hamlin . . .

Mr. Kir.

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Mr. Carpenter

FEDERAL RESERVE BANK OF NEW YORK

RECEIVED FEDERAL RESERVE BOARD WASHINGTON 1935 DEC 4 AM 8

December 3, 1935.

Sirs:

I acknowledge the receipt of Mr. Morrill's letter of November 29 supplementing that part of the Board's letter of November 23 relating to the resolution adopted by the Federal Open Market Committee at its meeting on October 22-24 concerning shifts in the Board now approves the authority given to the Executive Committee by this resolution to the extent necessary to enable the Executive Committee, during the period before the next meeting of the Federal Open Market Committee, to make shifts, in the aggregate amount not exceeding \$300,000,000, in maturities of Treasury bills and Treasury notes held in the

Very truly yours,

Chairman, Federal Open Market Committee.

Board of Governors of the Federal Reserve System, Washington, D. C.

System account.

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FEDERAL RESERVE BANK OF PHILADELPHIA 333.3-2

THIRD DISTRICT

RICHARD L.AUSTIN
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

December 2, 1935

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON

Board of Governors of the Federal Reserve System, Washington, D. C.

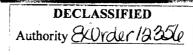
1935 DEC 3 AM 8 40

Dear Sirs -

We beg leave to acknowledge the receipt of your letter of November 29th) enclosing a copy of a letter addressed to the Chairman of the Federal Open Market Committee, advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22 - 24, 1935, for which we thank you.

Very truly yours,

Chairman.





FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

333,3-4

OFFICE OF THE
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT

December 2, 1935

RECEIVED FEDERAL RESERVE BOARD WASHINGTON

Confidential

1935 DEC 4 PM 1 46

Board of Governors of the Federal Reserve System Washington, D. C.

Gentlemen:

I am in receipt of your confidential letter of November 29, enclosing copy of letter addressed to the Chairman of the Federal Open Market Committee, advising of further action by the Board in connection with one of the motions adopted by the Committee at its meeting on October 22-24, 1935.

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Form No. 131

Office Correspondence

To General Counsel

From Mr. Carpenter

FEDERAL	
BOARD	

Date November 30, 1935.

Subject:_

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COPY

The Board has approved the draft of letter to Deputy Governor Worthington of the Federal Reserve Bank of Kansas City, referred to in Mr. Benedict's Memorandum of November 20, 1935, with regard to the granting of authority to the Federal Reserve Bank of Kansas City to accuire Government bonds from the Federal Land Bank of Omaha upon repurchase agreement, and has also approved the recommendation contained in Mr. Benedict's memorandum that a study of the subject referred to in the letter be made with the view of making appropriate recommendations to the Federal Open Market Committee as reorganized on March 1, 1936, as to its regulations or directions regarding such agreements.

cc: Mr. Smead

SRC:mgh

(File copy filed 332.3-6)

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NGV 29 1935

Confidential

Mr. F. H. Curtiss, Chairman, Federal Reserve Bank of Boston, Boston, Massachusetts.

Dear Mr. Curtiss:

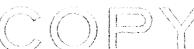
There is inclosed, for the information 14 and some of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signad) Chester Morrill

Chester Morrill. Secretary.

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Confidential

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

Dear Mr. Case:

There is inclosed, for the information of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signed) Christian Morrill

Chester Morrill, Secretary.

Inclosure.

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Confidential.

Mr. R. L. Austin, Chairman, Federal Reserve Bank of Philadelphia, Philadelphia, Fennsylvania.

Dear Mr. Austins

There is inclosed, for the information of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

Chester Mornill

Chester Morrill, Secretary.

Inclosure.

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NOV 29 1935

Confidential

Mr. E. S. Burke, Jr., Acting Chairman, Federal Reserve Bank of Cleveland, Cleveland, Chio.

Dear Mr. Burket

There is inclosed, for the information 1/-2935 of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signes) Chester Mordin

Chester Morrill, Secretary.

Inclosure.

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NOV 29 1935

Confidential

Mr. W. W. Menton, Chairman, Federal Reserve Bank of Richmond, Richmond, Virginia.

Dear Mr. Howtons

There is inclosed, for the infernation of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1935.

Very truly yours,

(Signed) Chester Morritt

Chester Morrill, Secretary.

Inclosure.

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Confidential

Mr. W. H. Kettig, Deputy Chairman, Federal Reserve Bank of Atlanta, Atlanta, Goorgia.

Dear Mr. Lettigs

There is inclosed, for the information of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1985.

Very truly yours,

(Signed) Chaster Morrill

Chester Morrill, Secretary.

Inclosure.

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NOV 29 1935

Confidential

Mr. E. M. Stevens, Chairman, Federal Reserve Bank of Chicago, Chicago, Illinois.

Dear Mr. Stevens:

There is inclosed, for the information of your bank, a copy of a letter/being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill, Secretary.

Inclosure.

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November 29, 1985.

Confidential

Mr. J. S. Wood, Chairman, Federal Reserve Bank of St. Louis, St. Louis, Missouri.

Dear Mr. Woods

There is inclosed, for the information of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in sommetion with one of the motions adopted by the Federal Open Market Committee at its meeting in Mashington on October 22-24, 1955.

Very truly yours.

(Signed) Chester Morrill

Chester Morrill, Secretary.

Inclosure.





333,3-a

November 29, 1985.

Confidential

Mr. J. N. Peyton, Chairman, Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota.

Dear Mr. Peytons

There is inclosed, for the information // 27-35 of your bank, a copy of a latter/being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill, Secretary.

Inclosure.

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NOV 29 1935

Confidential

Mr. E. P. Brown, Deputy Chairman, Federal Reserve Bank of Kansas City, Kansas City, Missouri.

Dear Mr. Browns

There is inclosed, for the information of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signed) Chantor Morrill

Chester Morrill, Secretary.

Inclosure.





333.3-4

November 29, 1955.

Confidential

Mr. C. C. Walsh, Chairman, Federal Reserve Bank of Dallas, Dallas, Texas.

Dear Mr. Walsh:

There is inclosed, for the information //- 27-35 of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signed) Charles Morrill

Chester Morrill, Secretary.

Inclosure

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333.3-2

Movember 29, 1985,

Confidential.

Mr. W. H. Moore, Deputy Chairman, Federal Reserve Bank of San Francisco, San Francisco, California.

Dear Mr. Moores

There is inclosed, for the information of your bank, a copy of a letter being addressed today to the Chairman of the Federal Open Market Committee advising of further action by the Board in connection with one of the motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955.

Very truly yours,

(Signed) Chaster Marrill

Chester Morrill, Secretary.

Inclosure.





by the B. B. S. Market

Mr. George L. Harrison, Chairman, Federal Open Market Committee, Care Federal Reserve Bank of New York, New York, New York.

Dear Governor Harrison:



Reference is made to the Board's letter of November 28, 1988, to you with regard to the resolution and motions adopted by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1985.

while the Board took the position that a substantial shift from short to long naturities in the System account would not be desirable at this time, the statement of this position was intended to apply only to a shift to bonds and was not intended to apply to such shifts in the naturities of the bills and notes held in the portfolio as might be advisable in the judgment of the Executive Committee. Therefore, the Board has requested me to advise you that it approves the authority given to the Executive Committee to the extent necessary to enable it, during the period before the next meeting of the Federal Open Market Committee, to make shifts, in an aggregate amount not exceeding \$500,000,000,000, in naturities of Treasury bills and

A copy of this letter is being forwarded to the chairmen of the board of directors of each of the Federal reserve banks.

Very truly yours

Ree and M3

Chester Merrill, Secretary.

ederal Reserve Bank of St. Louis

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Authority & Order 12356

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FEDERAL RESERVE BANK OF NEW YORK

RECEIVED
FEDERAL RESERVE COARD
MARRIEDETOTO
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1935 NOV EQ /M 8 39

November 29, 1935.

Sirs:

I wish to acknowledge receipt of your letter of November 23, 1935, enclosing copy of a letter, bearing the same date, addressed by your Board to the Chairman of the Federal Open Market Committee. This letter was presented to our board of directors at its meeting November 27, 1935.

Respectfully,

J. H. CASE Chairman.

Board of Governors of the Federal Reserve System, Weshington, D.C.

Digitized for FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis DECLASSIFIED
Authority EXOrder 1935le

333.3-a

Hovember 27, 1955.

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

Dear Covernor Seays

A

In compliance with the request contained in your letter of Movember 25, 1955, there are inclosed herewith three copies of the statement prepared by the Board's Division of Bank Operations on the subject of excess reserves of member banks.

Very truly yours,

(Signed) S. R. Carpentar

S. R. Carpenter, Assistant Secretary.



DECLASSIFIED
Authority & Order 12256

FEDERAL RESERVE BANK
OF
St. Louis

November 27, 1935.

Board of Governors of the Federal Reserve System, Washington, D. C.

Gentlemen:

Attention: Mr. Chester Morrill, Becretary.

Receipt is acknowledged of your letter dated November 23, enclosing a copy of the Board's letter to the Chairman of the Federal Open Market Committee, in reply to letter received by the Board from the Committee under date of November 4, 1935.

Very truly yours,

JOHN S. WOOD,

Chairman of the Board.

DECLASSIFIED

Authority 8 Order 1235le

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FEDERAL RESERVE BANK OF PHILADELPHIA

THIRD DISTRICT

RICHARD L.AUSTIN
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

November 25, 1935

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON

Board of Governors of the Federal Reserve System, Washington, D. C.

1935 NOV 26 AM 11 22

Dear Sirs -

We beg leave to acknowledge the receipt of your letter of November 23rd, enclosing a copy of a letter addressed to the Chairman of the Federal Open Market Committee, advising him of the action taken by the Board with regard to the resolutions and motions adopted by the Committee at its meeting held in Washington October 22-24th, for which we thank you.

Very truly yours,

Chairman.

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DECLASSIFIED Authority 8XOrder 12356

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FEDERAL RESERVE BANK OF RICHMOND

November 25, 1935.

Board of Governors of the Federal Reserve System, Washington, D. C.

Dear Sirs:

Attention of Mr. Morrill, Secretary.

I have before me the confidential communication of the Board to Chairman Hoxton giving a copy of the Board's 11-23-35 reply to the Chairman of the Open Market Committee relative to the action taken at their recent conference, and giving confidential data, prepared by the Board's staff, relating to excess reserves of member banks.

I do not know whether it is the purpose of the Board to send copies of this data to the Governor of the bank or not, but I am writing to say that, as a member of the Committee and as the chief executive officer of the bank, I should like to have, for study, at least three copies, if available.

Very truly yours,

GJS-CCP

GEORGE J. SEAY, Governor.

11/27/35

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Holow

FEDERAL RESERVE BANK OF CHICAGO 333.3~

230 SOUTH LA SALLE STREET

RECEIVED FEDERAL RESERVE COARD November 25, 1985

OFFICE OF THE
CHAIRMAN OF THE BOARD AND
FEDERAL RESERVE AGENT

1935 NOV 27 AM 8 44

CONFIDENTIAL:

Board of Governors of the Federal Reserve System Washington, D. C.

Gentlemen:

I acknowledge your letter, marked confidential, of

November 23, in which you enclosed a copy of the Board's letter

to the Chairman of the Federal Open Market Committee dated

November 23, 1935, and also the result of the Board's study of

excess reserves of member banks.

Thanking you for this information, I am

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mulate

FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

OFFICE OF THE
CHAIRMAN OF THE BÖARD AND
FEDERAL RESERVE AGENT

November 25, 1935

CONFIDENTIAL:

Board of Governors of the Federal Reserve System Washington, D. C. RECEIVED FEDERAL RESERVE BOARD WASHINGTON

1935 NOV 27 AM 8 58

Gentlemen:

I acknowledge receipt of your confidential letter of

November 23, in reply to our letter of November 15, which enclosed
a copy of the statement expressing the opinion of the Board of

Directors of this bank after a review of the report of the meeting
of the Federal Open Market Committee on October 22 to 24, 1935.

Inasmuch as our letter above referred to was forwarded at the request of our Board of Directors, I shall bring to its attention your reply thereto.

Very truly ours

Chairman

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FEDERAL RESERVE BANK OF NEW YORK

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FEDERAL RESERVE DOAR
WASHINGTON

1935 NOV 50 AM 8 39

November 29, 1935.

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Sirs:

Carded

October 21, 1935, and confirming the advice previously given to you, I submit herewith a formal record
of the action taken by the Federal Open Market Committee at its meeting held in Washington, D. C.,
October 22-24, 1935, upon all questions of policy
relating to open market operations, the votes of
the committee taken in connection therewith, and the
reasons underlying each such action.

Very truly yours,

George L. Harrison, Chairman, Federal Open Market Committee.

Board of Governors of the Federal Reserve System, Washington, D. C.

Enc.

copy of formal record placed in policy record.

RECORD OF ACTION TAKEN BY THE FEDERAL OPEN MARKET COMMITTEE AT ITS MEETINGS IN WASHINGTON, D. C., ON OCTOBER 22-24, 1935, UPON QUESTIONS OF POLICY RELATING TO OPEN MARKET OPERATIONS.

There were present:

Mr. Harrison, Chairman of the Federal Open Market Committee and Governor of the Federal Reserve Bank of New York;

Messrs. Young, Norris, Fleming, Seay, Newton, Schaller,
Martin, Geery, Hamilton, and Calkins, Governors of the Federal Reserve Banks of Boston, Philadelphia, Cleveland,
Richmond, Atlanta, Chicago, St. Louis, Minneapolis,
Kansas City, and San Francisco, respectively;

Mr. Gilbert, Deputy Governor of the Federal Reserve Bank of Dallas; and

Mr. Burgess, Secretary of the Federal Open Market Committee and Deputy Governor of the Federal Reserve Bank of New York.

After a review of business and credit conditions the Committee, by unanimous vote, adopted the following resolution. The reasons for the Committee's action are set forth in the resolution:

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still to lend its efforts towards the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects Statistics of business of the depression are yet overcome. activity and business credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognize that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to control if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the

- 2 -

Reserve System as promptly as may be possible to absorb at least some of these excess reserves, not with a view to checking some further expansion of credit, but rather to put the System in a better position to act effectively in the event that credit expansion should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of short-term Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed, would have the dual effect of absorbing excess reserves and improving the position of the Reserve Banks, nevertheless, there are two risks in this method, First, that it may be a shock to the bond market, inducing sales of securities by banks all over the country; second, that however it may be explained publicly, it may be misconstrued by the public as a major reversal of credit policy, since this method has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that its advantages do not now justify the risks involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the desirable further extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

- 3 -

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognizes that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies.

After discussion it was agreed that the authority previously granted to the executive committee of the Federal Open Market Committee to make shifts of maturities in the System open market account should be continued, as necessary in the proper administration of the account, to enable the executive committee to replace maturities from time to time and to make shifts in maturities to meet changing market conditions. Therefore, it was unanimously

VOTED that superseding previous authorizations, the executive committee be authorized to make shifts between maturities of government securities up to \$200,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$500,000,000.

It was also agreed that authority should be given to the executive committee to buy or sell (which would include authority to allow maturities to run off) securities for System account up to a certain amount, in order that the committee might be in a position to act promptly if circumstances not now foreseen should make action appear desirable before a further meeting of the full committee. Therefore, it was unanimously

VOTED that the executive committee be authorized to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System.

George L. Harrison Chairman, Federal Open

Market Committee

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CONFIDENTIAL

Mr. E. M. Stevens, Chairman, Federal Reserve Bank of Chicago, Chicago, Illinois.

Dear Mr. Stevens:

System have read with interest your letter of November 15, 1955 inclosing a copy of the statement adopted by your executive committee as an expression of the opinion of the board of directors of your bank after a review of the report of the meeting of the Federal Open Market Committee on October 22-24, 1955. It is noted that the statement has been concurred in by every member of your board with one exception, and that the opinion of that director is definitely that action should be taken toward a decrease in the amount of holdings of government securities by Federal reserve banks, either by the sale of securities or by allowing maturities to run off without replacement, rather than by action providing for an increase in the reserve requirements of member banks.

The statement referred to reads in part as follows:

"We, therefore, as a Board, desire to respectfully suggest for earnest consideration by the Board of Governors of the Federal Reserve System, an increase in required reserves against bank deposits in Central Reserve and Reserve City banks to possibly twenty-five per cent of the increase now permitted by law, thereby not only fortifying our banking

-2-

"structure to this extent, but giving assurance to business and the public that the levers of control are operative and in the hands of authorities who are ready to use
them. We believe that such action accompanied by a proper
statement of its objectives would be favorably interpreted
by the financial and business interests rather than otherwise.

"We recognize that in addition to the measure referred to, that of an increase in required reserves, consideration may properly be given to another effective power in the control of inflationary tendencies, under which credit may be withdrawn from the market either by the sale or by the maturity without replacement of Government securities held in the Federal Reserve System. However, because it is considered that the application of such a measure might be reflected in the market for Government bonds at this particular time, we are disposed to suggest the primary consideration of an increase in reserve requirements."

The action taken by the Federal Open Market Committee at its meeting in Washington on October 22-24, 1955, and the statement quoted in your letter have been very carefully considered by the Board, and there is being addressed to the Chairman of the Federal Open Market Committee today a letter advising of the Board's decisions in connection with the resolution and motions adopted by the committee. This letter contains the following paragraphs:

"In view of the Committee's observations, with which the Board concurs, that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion, and that the primary objective of the System at the present time is still to lend its efforts to a furtherance of recovery, the Board feels that it would not be timely to undertake at this stage of business recovery any measure for the absorption of excess reserves.

"The Board is alive to the injurious consequences that will be caused by the excess reserves if they are permitted to go uncontrolled beyond the point where it will become reasonably clear that further pursuit of the policy followed thus far by the Federal Reserve System during the depression will be attended with economic hazards to the country which the System could not safely assume. When and as that point approaches the Board will act."

-5-

The Board appreciates very much the interest which your directors are taking in the question of System open market policy and expresses the hope that they will not hesitate to give the Board the benefit of any views that they may have from time to time on this important subject.

Very truly yours,

Chester Morrill, Secretary.

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CONFIDENTIAL

Mr. F. H. Curtiss, Chairman, Federal Reserve Bank of Boston, Boston, Massachusetts.

Dear Mrr. Curtiss:

Under date of November 4, 1955, the Board received from the Secretary of the Federal Open Market Committee copies of the final draftsof the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1985, and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,

Chester Morrill, Secretary.

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CONFIDENTIAL

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

Dear Mr. Case:

Under date of November 4, 1985, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1988, and 1/-23.35 there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Chester Morrill, Secretary.

Very truly yours,



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November 23, 1935.

CONFIDENTIAL

Mr. R. L. Austin, Chairman, Federal Reserve Bank, Philadelphia, Pennsylvania.

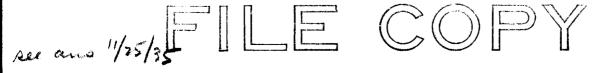
Dear Mr. Austin:

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, and 1/-23-35 there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,

Chester Morrill, Secretary.





337,3-4

November 23, 1935.

CONFIDENTIAL

Mr. E. S. Burke, Jr., Acting Chairman, Federal Reserve Bank, Cleveland, Ohio.

Dear Mr. Burke:

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,

Chester Morrill, Secretary.





333.3

November 23, 1955.

CONFIDENTIAL

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

Dear Mr. Hoxton:

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, 1/- 2 3 - 3 5 and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,

Chester Morrill, Secretary.







333.3-2

November 23, 1935.

CONFIDENTIAL

Mr. W. H. Kettig, Deputy Chairman, Federal Reserve Bank, Atlanta, Georgia.

Dear Mr. Kettig:

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, 1/-2 3-35 and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,



3333-4

November 23, 1935.

CONFIDENTIAL

Mr. E. M; Stevens, Chairman, Federal Reserve Bank, Chicago, Illinois.

Dear Mr. Stevens:

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, and there is attached a copy of a letter being addressed to the Chairman of the Committee today advicing of the action taken by the Board in connection therewith.

Very truly yours,



337.3-a

November 23, 1955.

CONFIDENTIAL

Mr. J. S. Hood, Chairman, Federal Reserve Bank, St. Louis, Missouri.

Dear Mr. Wood:

Under date of November 4, 1935 the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,



3333-2

November 23, 1935.

CONFIDENTIAL

Mr. J. N. Peyton, Chairman, Federal Reserve Bank, Minneapolis, Minnesota.

Dear Mr. Peytons

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, and 1/2-2-3-3 there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,





333,3-2

November 23., 1935.

CONFIDENTIAL

Mr. E. P. Brown, Deputy Chairman, Federal Reserve Bank, Kansas City, Missouri.

Dear Mr. Brown:

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, 1/-23-35 and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,



333,3-a

November 23, 1955.

CONFIDENTIAL

Mr. C. C. Walsh, Chairman, Federal Reserve Bank, Dallas, Texas.

Dear Mr. Walsh:

Under date of November 4, 1955, the Board received from the Secretary of the Federal Open Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, //-23-35 and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,



333.3-2

November 25, 1955.

CONFIDENTIAL

Mr. W. N. Moore, Deputy Chairman, Federal Reserve Bank, San Francisco, California.

Dear Mr. Moore:

Under date of November 4, 1935, the Board received from the Secretary of the Federal Open

Market Committee copies of the final drafts of the resolution and motions adopted by the Committee at its meeting in Washington on October 22-24, 1935, and there is attached a copy of a letter being addressed to the Chairman of the Committee today advising of the action taken by the Board in connection therewith.

Very truly yours,



333,3-2

CONFIDENTIAL

Mr. George L. Harrison, Chairman, Federal Open Market Committee, Care Federal Reserve Bank of New York, New York, New York.

Dear Governor Harrison:

Reference is made to the resolution adopted by the Federal Open Market Committee at its meeting on October 25, 1935, in Washington.

The Board has given careful consideration to the Committee's statement about the present credit situation and the possible desirability of taking steps to absorb some of the excess reserves of member banks, either through the reduction of the System's portfolio of Government securities, or through the raising of member bank reserve requirements.

In view of the Committee's observations, with which the Board concurs, that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion, and that the primary objective of the System at the present time is still to lend its efforts to a furtherance of recovery, the Board feels that it would not be timely to undertake at this stage of business recovery any measure for the absorption of excess reserves.

The Board is alive to the injurious consequences that will be caused by the excess reserves if they are permitted to go uncontrolled beyond the point where it will become reasonably clear that



-2-

further pursuit of the policy followed thus far by the Federal Reserve System during the depression will be attended with economic hazards to the country which the System could not safely assume. When and as that point approaches the Board will act.

A preliminary study has been made of the possible effects on the position of member banks of any change in reserve requirements that might be made by the Board. A summary of the results of this study, as presented by the Division of Bank Operations, is attached.

The authority granted in the motion adopted by the Federal Open Market Committee at its meeting with respect to the purchase and sale (which it is understood would include allowing maturities to run off without replacement) of Government securities by the executive committee, is in the same form as that approved by the Federal Open Market Committee at its meeting on May 27, 1955, and, inasmuch as it provides that before any purchases or sales are made by the executive committee telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board will be obtained, there appears to be no necessity for the Board to take action on the authority at this time. However, the Board will hold itself in readiness to consider any action proposed by the executive committee with the approval of a majority of the Federal Open Market Committee, as provided in the motion.

The second motion adopted by the Federal Open Market Committee authorises the executive committee to make shifts of maturities of Gevernment securities in the System account up to \$500,000,000, provided that the amount of securities maturing within two years be

-5-

maintained at not less than \$1,000,000,000 and that the amount of bonds in the account be not over \$500,000,000. The Board has carefully considered the reasons given for the adoption of this motion, but feels that a substantial shift in maturities of securities held in the account would not be desirable at this time. Therefore, the Board approves the authority given to the executive consittee only to the extent necessary to enable the committee to replace securities maturing between now and the date of the mext meeting of the Federal Open Market Committee which will be held sometime before the end of the current year in compliance with the requirement of the law that at least four meetings be held each year.

A copy of this letter is being forwarded to the chairman of the board of directors of each of the Federal reserve banks. Very truly yours,

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

FF	JAL	RESERVE	BOARD	Fil

Mr. James

Subject:

Date November 25, 1955.

From Mr. Carpenter

There is attached, for your information, an excerpt from the minutes of the meeting of the Board held on November 20, 1955, from which it will be noted that it was agreed at the meeting that you should have an opportunity to record in the minutes any position that you may desire to take with regard to the letter to the Chairman of the Federal Open Market Committee, a copy of which is attached.

611-23-35

EXCERPT FROM THE MINUTES OF A MEETING OF THE BOARD OF GOVERNORS OF THE PEDERAL RESERVE SYSTEM HELD ON HOVEMBER 20, 1955.

In accordance with the request made at the meeting of the Board on November 8, 1955, Mr. Miller presented a draft of letter to the Chairman of the Federal Open Market Committee with regard to the action taken by the Committee at its meeting held in Washington on October 22-24, 1955. The proposed draft was discussed and certain amendments were suggested.

At the conclusion of the discussion, it was unanimously agreed that the letter should be revised in accordance with the suggestions and circulated among the members of the Board for initials, with the understanding that if the letter were approved by the members who are in Washington it would be transmitted immediately.

In this connection, it was pointed out that Hr. James would not return to Washington until next week and it was agreed that he should be given an opportunity to record in the minutes any position that he may desire to take with regard to the matter. DECLASSIFIED

Authority & Order 19356

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BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

FOR THE PRESS

IMMEDIATE RELEASE

NOVEMBER 22. 1935.

Statement by Chairman Eccles on inflation and reserves.

orig. filed 331.1

X-9367

There appears to be widespread misunderstanding of the situation now existing with respect to inflationary possibilities, as well as a misconception of my own attitude with regard to inflation. I sought to emphasize in my speech before the American Bankers Association that it was the duty of the Government to intervene in order to counteract as far as possible the twin evils of inflation and deflation. The word inflation is used by some people to mean any expansion of credit, or any rapid advance in prices. In order to make it clear what I have in mind when I speak of inflation as a phenomenon that needs to be controlled, I define inflation as a condition brought about when the means of payment in the hands of those who will spend them increases faster than goods can be produced. In other words, the volume of money must be related to the volume of actual and potential production of real wealth.

I asked the question: "How is it possible to have inflation when men are idle and plants are idle?"

"There can be speculative excesses when surplus funds bid up stocks or real estate, but inflation in the generally accepted sense can only come about by increasing the means of payment in the hands of people who are willing to spend faster than we can increase production. We are a long way from such a period of inflation."

Considerable confusion seems to exist in some quarters, as reflected in some of the newspapers, about the dangers of "inflation" at present. But it is evident that what is meant in most cases is not inflation in the sense I have indicated, but a stock market "inflation". In other words, there seems to be concern about a repetition of the stock

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X-9367

market excesses of 1929 and a lack of understanding of the Federal Reserve System's power to deal with the situation. I wish so far as possible to clarify the picture in order to correct the notion that the Federal Reserve System could, by action at this time, reach the stock market situation, and secondly, the totally mistaken idea that the Chairman, or for that matter, the other officials of the Federal Reserve System, are indifferent to or disinclined to do whatever is within their power to prevent the development of an unsound condition.

Anyone who will take the trouble to consult the Reserve System's reports on the condition of member banks will see at once that the total of security loans by banks both to customers other than brokers and to brokers have shown no growth since the middle of March, when the present rise in security prices began. In fact, the figures show something of a decline between March 13 and November 13, as is indicated by the following table:

LOANS ON SECURITIES BY REPORTING MEMBER BANKS IN 101 LEADING CITIES (In millions of dollars)

	March 13 1935	November 13 1935	Change
Total loans on securities* To brokers and dealers:	3,239	3,052	- 187
Total	1,031	974	- 57
In New York City	854	815	- 39
Outside New York City	177	159	- 18
To customers*	2,208	2,078	- 130
	STOCK PRICES (1926= 100)		
421 stocks	63.1	93.3	+ 30.2 (+ 48%)

*Exclusive of loans to banks

X-9367

- 3 -

The rise in security prices has not been financed by bank credit. The securities are being bought mostly for cash out of the abundant investment funds in the hands of corporations and individuals and out of funds sent to this country by foreigners who wish to invest here because they believe that this is the safest and most profitable use for their money.

I wish to emphasize two points as strongly as I can: First, I think that there is an element of safety and of strength in the fact that the security purchases are being financed out of cash without increased use of bank credit. I am doubtful whether a run-away stock market situation can proceed very far without being reflected in an increased demand for borrowed funds.

In this connection I wish also to point out that the amount of money going into the stock market is not, as some have contended, depriving the capital market of adequate funds and thus retarding recovery. That ample funds are available in the capital markets is evidenced by the fact that offerings of long term securities and mortgages are being absorbed at yields which have been steadily declining.

The second point which I wish to emphasize even more strongly is that those who are suggesting that the Federal Reserve System should do something about stock market conditions at present are under the mistaken impression that the System can intervene in the market at any time. As a matter of fact, the System has no authority whatsoever to curb buying of securities by individuals or corporations, whether foreign or domestic. Its only authority in this matter is over margin requirements, which apply only when transactions

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are on credit, as is not the case to any extent at the present time. The only power the System has is to control the speculative use of bank credit. There is no speculative use of bank credit in the present situation.

Therefore, I should like to nail once and for all, if possible, the idea that the Federal Reserve System is neglecting at this time to exercise its power over stock market speculation. There is no truth in this idea.

As for the general business and credit situation and the volume of member bank reserves - it is clear that there is no excessive expansion in any field at this time. There is no evidence of accumulation of inventories, or of frantic bidding for a limited amount of goods, or of an expansion of bank credit, save through the purchase of Government securities. The turnover of deposits is still low.

The general credit situation as well as developments in the stock market require close and careful study as to the appropriate time for and method of action. This close study is being given by the System, including not only the Board of Governors itself, but the Open Market Committee and the Advisory Council as well.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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FEDERAL RESERVE BOARD FILE

November 21, 1935.

Topic No. 1. Open Market Operations.



RECOMMENDATION: The Federal Advisory Council, in view of the fact that it has been advised by the Chairman of the Board of Governors of the Federal Reserve System that the Board does not have the authority to initiate open market operations, requests the Board to submit the following recommendation to the Open Market Committee and to call for that purpose a special meeting of said Committee at an early date.

The Federal Advisory Council of the Federal Reserve System has received the communication of the Board of Governors of the System, wherein reference is made to the statement of the Council made to the Board at its meeting of September 24, 1935, concerning the amount of Government securities held by the System, which has not varied for a long time, and calling the attention of the Board to the basic theory of open market operations: that there should at all times prevail sufficient flexibility to prevent undue expansion and contraction in the credit structure of the country. The Council enquired whether the Board agreed with the principle enunciated.

The present communication of the Board recognizes "the necessity for the consideration of the factors referred to in the statement as elements in the determination of open market policy" and closes with the statement that "if the Council has any proposals to make with respect to the operation of the open market account of the Federal Reserve System,

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which it believes to be pertinent in the existing situation, all factors considered, the Board will, as in the past, be glad to receive them and consider them".

The Council is fully cognizant of and thoroughly appreciates the importance and significance of the obligation imposed upon it by law "to confer directly with the Federal Reserve Board" and "to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open market operations by said banks, and the general affairs of the reserve banking System", and it has given its most careful and earnest consideration to the suggestion by the Board that it will be glad to receive from the Council such proposals as it may make with respect to the open market account of the System.

As a result of this consideration the Council desires to call the attention of the Board to the fact that, since the discontinuance, more than two years ago, of open market purchases by the System, excess reserves of member banks held by the System have now reached the unprecedented total of more than three billion dollars, which may well be considered as a base upon which additional bank credit can be extended to the extent of at least thirty billion dollars with a corresponding increase of bank deposit liabilities.

The Council believes that there have now been some considerable evidences of recovery in business, of an increase in prices generally, and particularly in the security markets of the country, with the possibility, at least, that a too rapid advance of security prices could easily develop

-3-

into a new wave of speculation such as preceded the market collapse of 1929. The constant pressure of the very large excess reserves of the member banks creating a plethora of the available supply of bank credit has a very distinct tendency to foster and encourage speculative activity, increase prices, and raise the living cost of the population. The Council believes that, even with the practically complete elimination of excess reserves, the banking system of the country would still be prepared and ardently desirous of meeting any and all legitimate and proper demands for bank credit, and it is strongly of the opinion that, in order to obviate the probability of an undue and dangerous credit inflation, it is desirable from every point of view to eliminate or at least greatly reduce the excess reserves now being carried in the System.

Since the enactment of the Banking Act of 1935, there exist two methods by which this can be accomplished. 1. The selling or "permitting to run off" of a portion or all of the System holdings of Government securities. 2. Raising of reserve requirements.

The Council has most earnestly considered the question as to which of these two methods might be the more desirable under the present circumstances and has determined to recommend as strongly as possible the first method.

The controlling reason for this is the indisputable fact that so long as Government bonds are held under the ownership of the System, either the currency of the country or the reserves of member banks, to a corresponding extent, are dependent entirely upon a Government obligation. The world history of currency and banking has demonstrated the dangers inherent

-4-

in such a system or policy too many times to make it necessary for them to be elaborated upon in this communication.

There is, however, another reason for preferring the first method, namely, the ease and flexibility with which it may be administered. Under that method, Government security holdings may be permitted to run off or may be sold, rapidly or gradually, as in the judgment of the Open Market Committee, may seem to be feasible or advisable. If at any time, the effects seem to be too severe, it is possible to suspend or even temporarily to reverse the policy.

Under the second method, namely, increase of reserve requirements, rigidity is substituted for flexibility, since it must be entirely apparent to any one that frequent changes in reserve requirements would create a chaotic condition in planning for the future by member bank management.

Finally, the Council wishes to make perfectly clear to the Board that, after Government security holdings of the System have been eliminated or greatly reduced, and if, then, further curbs upon speculation should seem to be desirable, there would certainly be no possible objection to an increase in reserve requirements. On the contrary, it would become the clear and plain duty of the Board fearlessly and promptly to take such action.

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Confidential R. and S. November 20, 1935.

MEMORANDUM ON PROPOSED REQUEST FOR INFORMATION RE LARGE DEPOSITS

Purpose



The Board of Governors in formulating its general policies is interested not only in the volume of deposits but also in the turnover, now and in the future. One factor that has a bearing on the turnover is the distribution of deposits among different economic groups, about which almost no current information is available. Since 1933 over \$5\frac{1}{2}\$ billion of new demand deposits have cone into existence. What has happened to this purchasing power? Has it been distributed among all economic groups or has the bulk of it come to rost temporarily in large corporate accounts? It is known that deposits in New York and Chicago are far in excess of their 1929 peak. It is also known that demand deposits in the central reserve city and reserve city member banks have increased over \$4 billion since 1933. If this represents a growth of large corporate balances what bearing will this have on the probable future demand for bank credit and on the volume of new capital issues?

As there are over fifty million separate accounts a complete coverage and classified distribution of deposits would be a large task. It is known, however, that in 1933 about 45 percent of total deposits were in 47,000 accounts of over \$50,000 each. It appears, therefore, that information on the larger accounts in the larger banks would throw considerable light on what has happened to the deposits created in the past two years while involving a minimum of trouble to collect.

- 2 -

Procedure

The original suggestion was to obtain information on identical accounts at intervals during the past six years. If, however, the inquiry were confined to a few accounts in a few banks it would be impossible to determine whether the changes shown were actual changes in corporate accounts or merely represented shifts between banks. If the inquiry were limited to the period since the bank holiday it is believed that changes due to shifts of deposits would be minimized. It is now proposed, therefore, to investigate the feasibility of obtaining information on all accounts above a certain amount, classified by manufacturing, trade, public utility and railroad, financial, personal, and other, as of a recent date, and the same accounts as of June 30, 1933. The broad classifications would preclude the possibility of identifying the ownership of any deposit. If the information here suggested were obtained it would throw light upon the present distribution of the larger deposits and would aid in determining what has happened to the deposits created by Government financing and by inflows of gold.

Questions

The specific questions on which assistance is solicited from the Advisory Council are as follows:

- 1. Accounts above what size in New York and Chicago banks would include some 30 or 40 percent of their deposits?
- 2. Accounts above what size in the 76 largest banks outside of New York and Chicago would include some 25 percent of their deposits?

- 3 -

3. Would the tabulation and classification of such accounts involve much inconvenience?

Before proceeding with the inquiry the answers to these questions would be sought from the individual bankers affected. In the meantime the Board will appreciate any assistance the Advisory Council may give it in this matter.

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November 19, 1935.

Mr. Eugene M. Stevens, Chairman, Federal Reserve Bank of Chicago, Chicago, Illinois.

Dear Mr. Stevens:

Receipt is acknowledged of your letter of Movember 15 to Chairman Eccles relative to the adoption by your board of directors of a statement regarding the report of the last meeting of the Federal Open Market Committee.

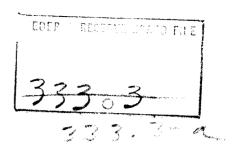
Your letter is being brought to the attention of the members of the Board.

Very truly yours.

Secretary.

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November 18, 1955.

Memorandum to Dr. Burgess:

Ne have gone over the tentative draft of the proposed record of the actions taken by the Federal Open Market
Committee at its meetings on October 22 - 24, 1935, and I
attach a substitute draft for your consideration. The principal purpose of the changes is to amplify the reasons for
the adoption of the two short resolutions and in doing so
we have utilised the oral explanation made by Governor Harrison. The change in the caption was made in view of the
suggestion in the Board's letter to Governor Harrison that
it would be willing to accept a record prepared and submitted
by the committee.

(Signed) Chester Morrill

Secretary.

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RECORD OF ACTION TAKEN BY THE FEDERAL OPEN MARKET COMMITTEE AT ITS MEETINGS IN WASHINGTON, D. C., ON OCTOBER 22-24, 1935, UPON QUESTIONS OF POLICY RELATING TO OPEN MARKET OPERATIONS.

There were presents

Mr. Harrison, Chairman of the Federal Open Harket Committee and Governor of the Federal Reserve Bank of New York; Messrs. Young, Herris, Fleming, Seny, Hewton, Schaller, Martin, Geory, Hamilton, and Celkins, Governors of the Federal Reserve Manke of Boston, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, and Sen Francisco, respectively; Mr. Celeman, Deputy Governor of the Federal Reserve Bank of Dallas; and Mr. Burgess, Secretary of the Federal Open Market Committee and Deputy Governor of the Federal Reserve Bank of New York.

After a review of business and credit conditions the Committee, by unanimous vote, adopted the following resolution. The reasons for the Committee's action are set forth in the resolution:

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous epinion of the Committee that the primary objective of the System at the present time is still to lend its efforts towards the furtherance of recovery. While such progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and business credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognise that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to centrol if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase -2-

the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the Reserve System as promptly as may be possible to absorb at least some of these excess reserves, not with a view to checking some further expansion of credit, but rather to put the System in a better position to act effectively in the event that credit expension should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of chort-term Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed, would have the dual effect of absorbing excess reserves and improving the position of the Reserve Banks, nevertheless, there are two risks in this method. First, that it may be a shock to the bond market, inducing sales of securities by banks all over the country; second, that however it may be explained publicly, it may be misconstrued by the public as a major reversal of credit policy, since this method has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that its advantages do not now justify the risks involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the desirable further extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

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Furthermore, the Committee recognises the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognises that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies.

After discussion it was agreed that the authority previously granted to the executive committee of the Federal Open Market Committee to make shifts of maturities in the System open market account should be continued, as necessary in the proper administration of the account, to enable the executive committee to replace maturities from time to time and to make shifts in maturities to meet changing market conditions. Therefore, it was unanimously

VOTED that superseding previous authorisations, the executive committee be authorised to make shifts between maturities of government securities up to \$300,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$500,000,000.

It was also agreed that authority should be given to the executive committee to buy or sell (which would include authority to allow maturities to rum off) securities for System account up to a certain amount, in order that the committee might be in a position to act promptly if occasion for action should arise due to unforeseen causes or, to offset, through open market operations, any unsettlement that might result in the Government bond market from a change by the Board of Governors of the Federal Reserve System in reserve requirements of

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member banks, should such action be taken by the Board. Therefore, it was unanimously

VOTED that the executive committee be authorized to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System.

George L. Harrison Chairman, Federal Open Market Committee

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REPORT OF ACTION TAKEN BY THE FEDERAL OPEN MARKET COMMITTEE AT ITS MEETING HELD IN WASHINGTON, D. C., OCTOBER 22-24, 1935, UPON QUESTIONS OF POLICY RELATING TO OPEN MARKET OPERATIONS.

There were present

Governor Harrison, chairman, Governors Young, Norris, Fleming, Seay, Newton, Schaller, Martin, Geery, Hamilton, and Calkins. Deputy Governors Gilbert and Burgess, secretary.

After a review of business and credit conditions the Committee adopted the following resolution unanimously.

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still to lend its efforts towards the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and business credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognize that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to control if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the Reserve System as promptly as may be possible to absorb at least some of these excess reserves, not with a view to checking some further expansion of credit, but rather to put the System in a better position to act effectively in the event that credit expansion should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of short-term Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed,

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would have the dual effect of absorbing excess reserves and improving the position of the Reserve Banks, nevertheless, there are two risks in this method. First, that it may be a shock to the bond market, inducing sales of securities by banks all over the country; second, that however it may be explained publicly, it may be misconstrued by the public as a major reversal of credit policy, since this method has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that its advantages do not now justify the risks involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the desirable further extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognizes that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies.

After discussion of the authority which it was necessary to give the executive committee in order to replace maturities from time to time in the System account, and in order to make shifts in maturities to meet changing market conditions, it was unanimously

- 3 -

VOTED that superseding previous authorizations, the executive committee be authorized to make shifts between maturities of government securities up to \$300,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$500,000,000.

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After discussion as to further authority which should be given to the executive committee in order to keep the committee in a position to act promptly if any occasion for action arose due to causes not now foreseen, it was unanimously

VOTED that the executive committee be authorized to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System.

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George L. Harrison Chairman, Federal Open Market Committee Reproduced from the Unclassified / Declassified Holdings of the National Archives

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FEDERAL RESERVE BANK OF CHICAGO

230 SOUTH LA SALLE STREET

November 15, 1985

OFFICE OF THE CHAIRMAN OF THE BOARD AND FEDERAL RESERVE AGENT

> Hon. Marriner S. Eccles Chairman, Board of Governors of the Federal Reserve System Washington, D. C.

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Gentlemen:

At a meeting of the executive committee of this bank today, the appended statement was adopted and ordered spread on the records, and the Chairman of the Board was requested to forward a copy thereof to the Board of Governors at Washington. This statement has been concurred in by every member of our board of directors excepting one member, whose opinion is definitely that action should be taken toward a decrease in the amount of holdings of Government securities by the Federal Reserve banks, either by sale or by maturity without replacement, rather than an action providing for an increase in the reserve requirements of member banks.

In accordance with the instructions of our committee, therefore, I am quoting the statement which has been adopted as an expression of the opinion of the board of directors of this bank, as follows:

"After a careful review of the report of the meeting of the Federal Open Market Committee held in Washington, D. C., October 22 to October 24, 1935, inclusive, and presented to us by our member of that committee, the Board of Directors of the Federal Reserve Bank of Chicago expresses concurrence in the conclusions reached at said meeting and especially as set out in the resolution prepared and delivered to the Board of Governors.

"This Board fully realizes that the application of any of the methods of credit control suggested lie within the power of the Treasury Department and the Board of Governors, to be used when, in their judgment, it is necessary. However, in a spirit of cooperation with both of these agencies we desire to call their attention to a feeling of growing uneasiness in the minds of the public as to possible credit inflation, caused by repeated reference to this danger by our press and public speakers.

"We cannot help but feel that for the moment our greatest potential danger is from our excessively large bank reserves, caused by a rapid rise in bank deposits, through gold imports and governmental financing, the control of which might well be considered our first objective.

"We, therefore, as a Board, desire to respectfully suggest

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ederal Reserve Bank of St. Louis

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FEDERAL RESERVE BANK OF CHICAGO

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November 15, 1935

Hon. Marrimer S. Eccles Chairman, Board of Governors

"for earnest consideration by the Board of Governors of the Federal Reserve System, an increase in required reserves against bank deposits in Central Reserve and Reserve City banks to possibly twenty-five per cent of the increase now permitted by law, thereby not only fortifying our banking structure to this extent, but giving assurance to business and the public that the levers of control are operative and in the hands of authorities who are ready to use them. We believe that such action accompanied by a proper statement of its objectives would be favorably interpreted by the financial and business interests rather than otherwise.

of an increase in required reserves, consideration may properly be given to another effective power in the control of inflationary tendencies, under which credit may be withdrawn from the market either by the sale or by the maturity without replacement of Government securities held in the Federal Reserve System. However, because it is considered that the application of such a measure might be reflected in the market for Government bonds at this particular time, we are disposed to suggest the primary consideration of an increase in reserve requirements."

Very truly

Anglwon Atevens.

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Form No. 181

Office Correspondence

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То	Dr. Miller	Subject:	3	3	3.	3 - 1	

From Mr. Carpenter

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At the meeting of the Board yesterday you were requested to prepare, in consultation with Mr. Goldenweiser, a reply to the attached letter dated November 4, 1935, from Mr. Burgess, for consideration at the
first meeting of the Board following the return of the Chairman from
the annual convention of the American Bankers Association in New Orleans.

It was agreed at the meeting that the draft of the reply should review the consideration which has been given by the Board to the resolution adopted by the Federal Open Market Committee with regard to open market policy, and advise (1) that there appears to be no necessity for action by the Board on the motion adopted by the Committee authorizing the Executive Committee of the Federal Open Market Committee to buy or sell securities, and (2) that the Board approves the authority granted to the Executive Committee to make shifts of maturities of securities in the account to the extent necessary to enable it to replace securities maturing between now and the date of the next meeting of the Federal Open Market Committee which, in view of the provisions of law requiring at least four meetings each year, should be held sometime before the end of the current year.

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Statement for the Press

For immediate release

November 8, 1935

The Federal Reserve System during the past three years has continuously pursued a policy of monetary ease. Discount rates have been reduced to the lowest level in the history of the System. Purchases of Government securities in the open market have been carried to the highest point on record, and holdings have been maintained for two years at a level of approximately two and a half billion dollars. Gold which has come to the country in a steady flow, amounting to \$2,500,000,000 in the past two years, has been permitted to exercise its full effect in adding to the volume of member bank reserves. In consequence, member banks today have the largest volume of reserves in their history, aggregating approximately \$5,700,000,000, which is \$3,000,000,000 in excess of the amount they are legally required to hold as reserves against their deposits. These constitute the so-called excess reserves of the member banks.

These excess reserves are widely distributed throughout the banking system and throughout all sections of the country so that all classes of member banks have a large volume of idle funds in the form of reserves at the Federal Reserve banks and as balances with correspondent banks. Central reserve city banks, reserve city banks and country banks have, respectively, 125 percent, 94 percent and 106 percent of reserves above their legal requirements.

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The movement of gold internationally and the accompanying growth of excess reserves have resulted in an unprecedented situation to which the Federal Reserve System for some time has given careful consideration with a view to determining the course of action most appropriate in adjusting the position of the banking system of the country with relation to the superabundance of reserves, and the effect they may exert upon future financial stability.

Under the provisions of the Banking Act of 1935, the Board of Governors of the Federal Reserve System has authority to increase reserve requirements of member banks and thus deal with the unusual situation confronting it without departing from the System's general policy of monetary ease and without occasioning increases in money rates, tightening of credit conditions or a more hesitant lending policy on the part of member banks.

In view of these considerations and as an offset against accumulating excess reserves resulting from gold imports, the Board, without departing from its policy of assisting economic recovery through monetary ease, has determined that reserve requirements of member banks shall be increased by 25 percent effective ______.

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The controlling purpose of the Federal Reserve System in the period of the depression has been to relieve the financial economy of the country of tension in any form or degree, so far as this result could be accomplished by the System's action. To this end it has pursued without hesitation or reservation a Discount rates have been maintained at policy of easy money. the lowest level in the history of the System; purchases of Government securities in the open market have been carried to the highest point in the history of the System and maintained there at a level of approximately 2-1/2 billion dollars; importations of gold, which have come in a steady and increasing flow, have been permitted to exercise their effects without hindrance or in-In consequence, the member banks of the Federal Reserve System today hold either in their own vaults or in the reserve account which they carry with their Federal reserve banks, or in their correspondent banks, the largest amount of cash in their history - so large that taken in the aggregate, they hold approximately billions of dollars in excess of what they are legally required to hold as reserves against their deposits. These constitute the so-called "Excess reserves" of member banks of the System.

During the past two years the chief factor in the growth of these excess reserves has been the large flow of gold from foreign sources into the United States.

(Here give a few facts and figures for the calendar year 1934 and for the first half of the year 1935.) - 2 -

The influx of gold and the growth of excess reserves has continued in the second half of the year 1935 not only without abatement but with considerable acceleration. For the four months ending October 30 of this year they increased by an amount of 600 million dollars, the importations during the month of about September alone accounting for/380 millions of this amount.

The excess reserves arising out of these enormous importations of gold have spread to every part of the country, and member banks of every class have felt the effects of this influx in the growth of their excess reserves.

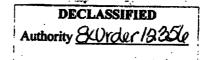
(Here give a few facts and figures showing the participation of the country banks.)

Such shifts of gold internationally as have taken place in the past two years and such gains as have accompanied them in the growth of the surplus and unused cash holdings of the banks of the United States constitute a condition never hitherto even approached in the United States or in any other country and present a situation of concern to the future of the American financial and credit economy. They have therefore, and for some time, been claiming the attention of the Federal Reserve System with the view of determining the course of action that the Federal Reserve System might most appropriately take in adjusting the position of the banking system of the country to this anomalous condition.

- 3 -

It is believed that the policy thus far pursued by the Fed-Reserve eral/System in allowing the influx of gold to exert its natural effects on the growth of member bank reserves without interference has justified itself. Not only has money tonsion disappeared but the money rates have experienced / decline to be expected from the extraordinary increase in the supply of money, with effects in assisting the progress of economic recovery which are not to be underestimated in the circumstances which have obtained thus far during the period of the depression.

With excess reserves over 3 billions of dollars and the stream of gold still flowing into the country, a prudent regard for the strength and solidity of our financial and credit economy counsels an attitude of caution on the part of the Federal Reserve System, lest the purpose of the System to support and induce economic recovery by pursuing an easy money policy be defeated by raising doubts as to the future of money in the United States, which would be prejudicial to the restoration of investment spirit and enterprise and the development of capital markets so essential to full economic recovery. The whole matter occasioned by the huge and continuing gold inflow and the enormous growth of surplus banking reserves is one that relates itself both to the economic recovery of the country and to the future economic stability of the country. It is in this spirit that the Federal Reserve System has considered the matter and with a view of discharging the particular responsibility which has been laid upon it by the ex-



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tensive grant of new powers conferred upon the Board of Governors of the Federal Reserve System under the Benking Act of 1935.

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Clothed as the Board now is with power to change the reserve requirements of member banks, it is in better position than it otherwise would be to deal with the unusual situation confronting it effectively and with a minimum of disturbance, if any at all, to money and financial markets, and without any departure from the controlling purpose of the Federal Reserve System of assisting and accelerating the forces of economic recuperation by pursuing an easy money policy.

The Board has reached the conclusion that of the two methods which are open to the Federal Reserve System for dealing with the problem, (1) the sale of securities by it in the open market, or (2) the raising of reserve requirements of member banks, the latter appears to be the more appropriate and satisfactory course. It is neither intended nor expected that any disturbance in the structure of money rates should or would result from this course, and no pressure whatever upon financial markets. The effect of an increase of reserve requirements will be to offset in some measure the effect of gold imports upon the reserves of the member banks by taking them out of harm's way and conserving them for future use.

The Board has therefore decided that, beginning with reserve requirements of member banks of the Federal Reserve System will be increased.

Form No. 181

Office Corresponden a

JA	en
Date November 7, 19	35 m

Γο	Board	of G	OVER	OPS
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Subject: Excess reserves of

From Br. Smead

On October 30 excess reserves of member banks amounted to approximately \$3,000,000,000, or about \$600,000,000 above the amount reported for June 29, 1935, and about \$380,000,000 more than average daily excess reserves for the month of September, when they amounted to \$2,628,000,000. The average daily excass reserves during the month of September of central reserve city, reserve city, and country banks, in each Federal Reserve district, were as follows:

Federal Reserve districts	Central re- serve city banks	Reserve city banks	Country banks
Boston		\$125,000,000	\$43,000,000
New York	\$1,177,000,000	3,000,000	81,000,000
Philadelphia		75,000,000	32,000,000
Cleveland		129,000,000	43,000,000
Richmond		56,000,000	31,000,000
Atlanta		21,000,000	25,000,000
Chicago	246,000,000	74,900,000	69,000,000
St. Louis		54,000,000	23,000,000
Minneapolis		25,000,000	35,000,000
Kansas City		50,000,000	41,000,000
Dallas		20,000,000	32,000,000
San Francisco		102,000,000	16,000,000
Total	\$1,423,000,000	\$734,000,000	\$471,000,000

Excess reserves of New York and Chicago banks on October 30 were about \$200,000,000 and \$90,000,000, respectively, above the September averages. Later figures for reserve city and for country banks separately are not available, but the combined average for these two classes of banks for the month of September, \$1,205,000,000, was approximately \$100,000,000 less than at present and not much above the figures for June 29.

Mumiograph *Calculated in accordance with the formula used since the passage of the Banking Act of 1935.

Board of Governors - #2

The last date for which we have figures of required and excess reserves of each member bank is June 29, 1935, the date of the last call report. On the basis of the June 29 condition reports 129 member banks had deficiencies in reserves, 768 had excess reserves of 25 percent or less, 1,144 banks had excess reserves amounting to between 26 and 50 percent of required reserves, and 4,369 had excess reserves amounting to more than 50 percent of required reserves. The following is a distribution of the number of central reserve city, reserve city, and country banks on June 29, 1935, according to the ratio of excess reserves to required reservess

	Total number of member banks	•	reserve banks Chi- ago	Re- serve city banks	Country banks
Total number of member banks	6,410	38	18	329	6.025
Number with deficient reserves	129	* 7	18149	12	110
Number with excess reserves amounting to the following per- centages of required reservess					
25 percent or less	768	8	2 3 5 6	74	684
26-50 percent	1,144	9	3	72	1,060
51-100 percent	1,529	7	5	69	1,448
101-200 percent	1,278	4		50	1,218
Over 200 percent	1,562	3	2	52	1,505

*On the basis of average figures for the semi-weekly reserve computation period ended October 25 no member bank in New York city had a deficiency in reserves, but 14 had excess reserves amounting to 25 percent or less of required reserves.

On the basis of the above figures it appears that 30.4 percent of central reserve city banks, 26.1 percent of reserve city banks, and 13.2 percent of country banks had reserves equal to 125 percent or less of requirements; and that 51.8 percent of central reserve city banks, 48 percent of reserve

Board of Governors - #3

city banks, and 30.8 percent of country banks had reserves amounting to 150 percent or less of requirements. The additional reserves required to meet an increase of 25 percent in reserve requirements would have been approximately \$39,000,000 for central reserve city banks, \$46,000,000 for reserve city banks, and \$15,500,000 for country banks. Similarly, the increased reserves necessary in case requirements were raised by 50 percent would be approximately \$152,000,000 for central reserve city banks, \$130,000,000 for reserve city banks, and \$46,000,000 for country banks.

The following table shows the total number of banks of each class and in each district with reserves insufficient to meet an increase of 25 percent and an increase of 50 percent in requirements, together with the amount of additional reserves required to meet such increases:

	If requiredwere incre		If required were incre	
į	Number of	asou / Je	Number of	1 30%
	banks with	Additional		Additional
	insufficient		insufficient	1
	reserves	required	reserves	required
Total - all member banks	897	99.377.000	2,041	\$327.820.000
Central reserve city banks:		<i>N</i>		
New York City	15	37,461,000	24	150,024,000
Chicago	2	510,000		1,734,000
Reserve city banks	86	45,910,000		129,859,000
Country banks	794	15,496,000		46,203,000
Total for each district:				
Boston	95	5,283,000	164	13,344,000
New York	145	46,882,000		172,388,000
Philadelphia	137	6,104,000	3 19	18,894,000
Cleveland	84	11,526,000		28,431,000
Richmond	51.	2,604,000	130	8,921,000
Atlanta	45	2,259,000		8,758,000
Chicago	52	3,957,000		12,469,000
St. Louis	42	1,307,000		4,788,000
Minneapolis	54	755,0 00	136	2,141,000
Kansas City	53	3,234,000		11,742,00
Dallas	79	826,000		4,758,00
San Francisco	60	14,640,000		41,186,000

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Authority EXOrder 1235le

Board of Governors - #4

Of the 897 banks which would have had to increase their reserves to bring them up to 125 percent of requirements, all but 38 country banks and 8 central reserve city banks had balances with correspondent banks sufficient to provide the additional reserves. Likewise, of the 2,041 banks that would have had to increase their reserves to bring them up to 150 percent of requirements, all but 107 country banks, 3 reserve city banks and 16 central reserve city banks had balances with correspondents sufficient to meet the increase.

The extent to which bank balances would be used for the purpose of meeting an increase in reserve requirements and the extent to which such an increase would be not by borrowing or by selling securities is impossible to tell from available information. It is probable, however, that member banks in reserve cities and country banks would draw on their city correspondents for a large part of the additional reserves that they would be required to deposit with Federal Reserve banks. If this were done most of the withdrawals would be made from member banks in the large financial centers, particularly New York. The total amount which would be withdrawn from New York, however, if reserve requirements were increased 50 percent, is small compared with the huge volume of excess reserves now held by New York City banks in the aggregate.

There are attached hereto two tables, one of which shows the total number of banks of each class in each district, the number and percentage of such banks with reserves insufficient to meet a 25 percent increase in reserve requirements, the amount of additional reserves required to meet such an increase, and the number of banks with reserves plus bank balances insufficient to meet the increase; and the other shows similar data

for banks with reserves insufficient to meet a 50 percent increase in re-

TOTAL HUMBER OF MEMBER BABA. BER WITH RESERVES INSUFFIC HT AN MEET AN INCREASE OF 25 PERCENT IN RESERVE REQUIREMENTS, AMOUNT OF ADDITIONAL RESERVES REQUIRED TO MEET SUCH INCREASE AND BALANCES DUE TO SUCH BANKS FROM OTHER BANKS.

(Based on June 29, 1935 condition reports)

	Total				ient to meet	Banks with reserves
	maper			required		plus bank balances
	of bunks		Percent	idditional		insufficient to see
	of each		of	Lobelage	due from	a 25% increase in
	_aless	hanks	total		other banks	required reserves
				(Thousand	of dollars)	
ill pember bank		444	140	00 2077	688,224	46
TOTAL	6.410	897	14.0	99,377	600,224	40
A	: تبرو بنداد م					
Control Reserve	56	17	30.4	37,971	36,847	8
10.7 WW		*		414715		
Hew York City	36	15	39.5	37,461	30,958	8
Chicago	îs	2	11.1	510	5,889	
Reserve eity be	mter	,				
TOTAL	329	86	26.1	45,910	489,679	
Districts			وسيت		شد سد . شم مو	
Boston	12	2	16.7	2,494	12,402	
New York	12	4	33.3	3,992	13,074	
Philadelphia	24	8	33.3	4,808	43,402	
Cleveland	34	, w	38.2	10,300	65,350	
The way on a significant	-	1			43	
Richmond	30	5	16.7	1,464	41,071	
Atlanta	19	1	31.5	1,045	28,599	
Chicago	48	10	20,6	2,642	41,859	
St. Louis	24	4	16.7	909	14.547	
Minneapolis	9	2	22.2	333	5,405	
Eansas City	51		27.5	3,029	96,315	
Dallas	33	14	12.1	455	26,500	
San Francisco		14	12.3	14,439	101,155	-denim-
Country banks						
TOTAL	6,025	794	13.2	15,496	161,698	38
Districts			m.# ==		م معمد معمد	
Boston	353	93	26.3	2,789	25,814	6
New York	742	126	17.0	5,429	36,389	12
Philadelphia	630	129	20.5	1,296	15,260	8
Cleveland	590	71	12.0	1,226	13,220	
Ri chaond	371	46	12.4	1,140	11,125	2
Atlanta	309	39	12.6	1,214	9,681	
Chicage	628	40	6.4	805	10,171	1
St. Louis	366	36	10.4	398	7,246	
** Ad Theath	بالمر			1	1 December	
Minneapolis	500	52	10.4	422	9,,906	3
Kansas City	677	39	5.8	205	5,227	
Dellas	521	75	14.4	371	5,190	6
				,		1
Sen Francisco	336	16	13.6	201	12,469	

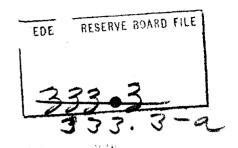
TOTAL HUMBER OF MEMBER BANKS, "GMBER WITH RESERVES INSUFFICIENT TO MEET AN INCREASE OF 50 PERCENT IN RESERVE REQUIREMENTS, AMOUNT OF ADDITIONAL RESERVES REQUIRED TO MEET SUCH INCREASE AND BALANCES DUE TO SUCH BANKS FROM OTHER BANKS.

(Based on June 29, 1935 condition reports)

	Total					Benks with reserves
	number			in require		plus bank balances
	of banks		Percent	1	•	insufficient to meet
	of each	4	of	reserves	due from	a 50% increase in
	<u>olese</u>	benke	total		other banks of dollars)	required reserves
				(1Don byte	s or sorrers)	Para dia nata
All member bank						# de la
TOTAL	6,410	2.041	31.8	327,820	1.183.666	7.04
TA100		0100	2409	245,040	4,403,000	126
Central Reserve	ofty have	rae			•	
TOTAL	56	29	51.8	151,758	65,692	16
***************************************			4287		971076	
New York City	36	24	63.2	150,024	58,844	16
Chicago	18	3	27.8	1,734	6,848	
				-,,,,	ن اور د	
Reserve city bes	akes					
TOTAL	329	158	48.0	129,859	767,097	3
		, T. T. T. T.				
Districts						
Boston	12	5	41.7	6,060	17,509	
Hew York	12	8	66.7	8,534	13,686	1
Philadelphia	24	17	70.8	13,294	70,379	1
Cleveland	34	20	58.8	24,430	86,324	i
						_
Richmond	3 0	11	36.7	5,841	69,568	-
Atlanta	19	13	68.3	6,155	74,832	
Chicago	48	16	33.3	8,166	65,481	
St. Louis	24	8	33.3	3,146	22,892	
441 77075			7747	7,5		1
Minmeapolis	9	2	22,2	671	5,405	
Kansas City	51	22	43.1	10,881	129,294	
Ballas	33	13	39.4	3,464	58,155	
San Francisco	33	23	69.7	39,217	153,572	
冷酷性 1.2 個性のではから	رد	•-)	U76.	279	-///	
Country benks:						
TOTAL	6,025	1.854	30.8	46,203	350,877	107
IVIAN						
Districts						
Boston	353	159	45.0	7,284	41,226	12
New York	742	256	34.5	13,830	61,114	32
Philadelphia	630	302	47.9	5,600	43,189	27
Cleveland	590	176	29.8	4,001	34,247	7
MAN T VARIABLE	<i>y</i>			~,	>	·
Rishmond	371	119	32,1	3,080	25,716	3
Atlanta	309	100	32.4	2,603	20,270	3 2
Chicago	628	96	15.3	2,569	24,549	3
St. Louis	366	94	25.7	1,642	18,321	3
has manys	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	/=				
Minneapolis	500	134	26.8	1,470	20,992	6
Kenses City	677	iii	16.4	861	13,120	
Dallas	521	176	33.8	1,294	13,009	13
San Francisco	338	131	38.8	1,969	35,124	ī
Same Limitarion	تحرر	-/-				_
	l		1			

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Authority & Order 1235le



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

Dear Governor Harrison:

Receipt is acknowledged of Mr. Spreul's letter of October 51, 1955, advising of the action taken by the board of directors of your bank on that date in instructing the officers of the Federal Reserve Bank of New York to sell the \$25,805,200 of long term United States Government bonds held in the bank's own investment account, and to purchase an equivalent amount of Government securities of shorter maturities; it being anticipated that the sales will extend over a period of weeks so that the appearance of a change in a large amount in the maturity distribution of published holdings of the bank in any one week will be avoided, and that sales will be made when advantage can be taken of periods of strength in the market.

This matter has been considered at a meeting of the Board and I have been requested to advise you that the Board interposes no objection to the sale and purchase of securities by your bank in accordance with the program authorised by your directors, on the understanding that the transactions will result in no change in the total amount of Government securities held in your bank's investment account Eccles

Copy sent to fr. Goldenweiser

Nev 8, 1935

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Chestar Morritt,

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DECLASSIFIED
Authority EXURAL 19354

Form No. 131

From

Office Correspondence

FEDERAL RESERVE BOARD

Subject:____

Date_November 6, 1985.

To Mr. Szymczak

Mr. Carpenter

This memorandum is to remind you that a meeting of

the Bo

the Board has been called for Friday morning, November 8, 1935, at 11:00 a. m., for the purpose of further consideration of the matter which was discussed at the meeting today.

(Mr. Szymczak advised Mr. Morrill this afternoon that he would not be back from Cleveland in time for the meeting on Friday morning, but that if action were taken by the Board on the matter discussed at the meeting this morning, he could be recorded as being in favor of an increase of 25% and that if there were any question as to the date the increase should be made effective he could be reached at the Federal Reserve Bank of Cleveland.)

http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis

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DECLASSIFIED Authority EXOrder 12356

Form No. 131

FEDERAL RESERVE Office Correspondence BOARD

Messrs. Eccles, Thomas, Hamlin, Miller, To James, Szymczak, and O'Connor, individually. Subject:

Mr. Corporter

From

This memorendum is to remind you that a meeting of the Board has been called for Friday morning, November 8, 1935, at 11:00 a. m., for the purpose of further consideration of the

matter which was discussed at the meeting today.

see memo 16/35 to paymegate

DECLASSIFIED

Authority & Order 12356

Maryhan

FEDERAL RESERVE BANK OF NEW YORK

November 6, 1935.

tis Corporates 333.3-a

Dear Mr. Morrill:

Thank you for your letter of November 5.

We are preparing a separate record of the meeting on October 22-24 in accordance with your suggestion.

Very truly yours,

W. Randolph Burgess

Secretary, Federal Open Market Committee

Mr. Chester Morrill, Secretary, Board of Governors of the Federal Reserve System, Washington, D. C.

WRB.H

DECLASSIFIED Authority EXURAL 19356

Form No. 131

Office Correspondence

FEDERAL RESERVI

Date_	How	ember	· 6.	1085
Date_		-		-1-7-22

To Messrs.	Eccles, Thomas, Hamlin, Miller,	Subject:
James,	Szymczak, O'Connor and Clayton	
From	Mr. Carpenter	

10 000

CONTRIBUTAL



There are attached to this memorandum for your consideration copies of the following documents which were discussed at the meeting of the Board this morning:

- Memorandum dated November 1, 1985, from Mr. Spend on the subject of excess reserves of member banks.
- Z. Memorandum dated November 5, 1985, entitled *Ressons for Raising Reserve Requirements at This Time".
- 5. Memorandum dated November 5, 1975, entitled "Rensons Against Raising Reserve Requirements at This Time".
- 4. Praft of a press statement with respect to reising reserve requirements.
- 5. Letter dated November 4, 1985, from Mr. Purgess to which is attached copies of final drafts of the resolution and motions adopted by the Federal Open Market Committee at its last meeting.

Soft Ingh

Copies shown on the attached statement as not having been distributed have been placed in the safe in Mr. Carpenter's office.

DISTRIBUTION OF FOLLOWING DOCUMENTS DISCUSSED AT THE MEETING OF THE BOARD ON NOVEMBER 6, 1935

- 1. Memorandum dated November 1, 1935, from Mr. Smead on the subject of excess reserves of member banks.
- 2. Memorandum dated November 5, 1935, entitled "Reasons for Raising Reserve Requirements at This Time".
- 3. Memorandum dated November 5, 1935, entitled "Reasons Against Raising Reserve Requirements at This Time".
- 4. Draft of a press statement with respect to raising reserve requirements.
- 5. Letter dated November 4, 1935, from Mr. Burgess to which is attached copies of final drafts of the resolution and motions adopted by the Federal Open Market Committee at its last meeting.

Copy Number	To Whom Distributed
1	Mr. Hamlin
2	Mr. Miller
3	Mr. James
4	Mr. Eccles
5	Mr. Morrill
6	Mr. Bethea
7	Dishoyed SA
8	Julis Sh
9	Mr. Thomas
10	Mr. Szymczak
11	Mr. O'Connor
12	Mr. Clayton
13	\mathcal{L}
14	Ce/
15	Tay 1
16	Ochar Land
	7 .

Copies of

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CUNFIDENTIAL

To: Chairman Eccles

Date: November 1, 1988

From: Mr. Smead

Subject: Excess reserves of member banks.

On October 30 excess reserves of member banks amounted to \$5,011,000,000, or about \$600,000,000 above the amount reported for June 29, 1955*, and about \$560,000,000 more than average daily excess reserves for the month of September, when they amounted to \$2,628,000,000. The average daily excess reserves during the month of September of central reserve city, reserve city, and country banks, in each Federal Reserve district, were as follows:

Federal Reserve districts	Central re- serve čity banks	Reserve city banks	Country banks
Boston	•	\$125,000,000	\$45,000,000
New York	\$1,177,000,000	8,000,000	81,000,000
Philadelphia		75,000,000	82,000,000
Cleveland		129,000,000	48,000,000
Richwond		56,000,000	81,000,000
Atlanta		21,000,000	25,000,000
Chicago	248,000,000	74,000,000	69,000,000
St. Louis		54,000,000	28,000,000
Minneapolis		25,000,000	35,000,000
Kensas City		50,000,000	41,000,000
Dallas		20,000,000	82,000,000
Sen Francisco		102,000,000	16,000,000
Total	\$1,423,000,000	\$784,000,000	\$471,000,000

Excess reserves of New York and Chicago banks on October 50 were about \$200,000,000 and \$90,000,000, respectively, above the September averages. Later figures for reserve city and for country banks separately are not available, but the combined average for these two classes of banks for the south of September, \$1,205,000,000, was approximately \$100,000,000 less than at present and not much above the figures for June 29.

*Calculated in accordance with the formula used since the passage of the Banking Act of 1985.

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Chairman Eccles - 2

The last date for which we have figures of required and excess reserves of each member bank is June 29, 1955, the date of the last call report. On the basis of the June 29 condition reports 129 member banks had deficiencies in reserves, 768 had excess reserves of 25 per cent or less, 1,144 banks had excess reserves amounting to between 26 and 50 per cent of required reserves, and 4,569 had excess reserves amounting to more than 50 per cent of required reserves. The following is a distribution of the number of central reserve city, reserve city, and country banks on June 29, 1955, according to the ratio of excess reserves to required reserves:

	: Total :number o : member : banks	f: city	l reservents banks Chi- cago		: Country : banks
Tetal number of member banks	6,410	5 8	18	329	6,025
Number with deficient reserves	129	* 7		12	110
Number with excess reserves amounting to the following pe centages of required reserves					
amounting to the following po		8	2	74	684
amounting to the following percentages of required reserves	51	8 9	2 3	74 72	684 1,060
amounting to the following percentages of required reserved. 25 per cent or less	51 7 6 8				
amounting to the following percentages of required reserved 25 per cent or less 26-50 per cent	7 6 8 1,144		3	72	1,060

It will be noted that 17 central reserve city banks, 86 reserve city banks, and 794 country banks did not have sufficient reserves to meet an increase of 25 per cent in requirements. These figures represent 30 per cent of the total number of central reserve city banks and 26 per cent of the total number of reserve city banks, but only 15 per cent of the total number of country banks.

*on the basis of average figures for the semi-weekly reserve computation period ended October 25 no member bank in New York City had a deficiency in reserves, but 14 had excess reserves amounting to 25 per cent or less of required reserves.

In case reserve requirements were raised to 125 percent or to 150 percent of present requirements, there would be a certain number of banks which would not have sufficient excess reserves to meet the iscrease without drawing down their balances with other banks, selling securities, or borrowing from the Federal Reserve banks. The number of banks that would be in that position and the amount of additional reserves that they would have to secure is indicated by clauses of banks and by Federal Reserve districts in the following tables

	If required reserves		If required reserves	
	Sumber of banks with insufficie reserves	nt required	Number of banks with insufficient reserves	Additional reserves required
Total - all member backs	∂97	599.577.000	%,040	\$\$27 . 820.000
Central reserve city beni	kst			
New York City	15	87,461,000	24	150,024,000
Chicago	2	510,000	5	1,784,000
Reserve city banks	86	45,910,000	158	129,859,000
Country banks	794	15,498,000	1,854	46,20%,000
Total for each districts				
Boston	95	5,288,000	164	15,344,000
Rew York	145	46,882,000	266	172,500,000
"hiladelphia	157	6,104,000	379	18,894,000
Cleveland	84	11,525,000	196	28,481,000
Ri ghwend	51	2,604,000	130	8,921,000
Atlanta	45	2,259,000	115	8,758,000
Calengo	52	5,957,000	117	12,469,000
St. Louis	42	1,507,000	102	4,788,000
Minneapolis	54	755,000	125	2,141,000
Kansas City	58	5,254,000	185	11,742,000
Dallas	79	626,000	189	4,758,000
San Francisco	80	14,840,000	154	41,188,000

As indicated in the table, if recerve requirements were increased 25%, 897 banks would have to provide \$99,000,000 of additional reserves; and if require-

- 4 -

ments were increased 50%, 2,041 banks would have to provide \$528,000,000 of additional reserves.

them up to 125 percent of requirements, all but 45 had belonces with correspondent banks sufficient to provide the additional reserves. Likewise, of the 2,041 banks that would have to increase their reserves to bring them up to 150 percent of requirements, all but 125 had belances with correspondents sufficient to meet the increase. The extent to which such belances would be used for the purpose of mosting an increase in reserve requirements and the extent to which such such said the extent to which such as increase sould be not by borrowing or by selling securities is impossible to tell from available information.

In the event of an increase in reserve requirements, a number of member banks in New York City would presumably have to either sell securities or box-row to meet the greater part of the additional requirements of \$57,000,000, if requirements were increased 25 percent, or \$150,000,000 if requirements were increased 25 percent, or \$150,000,000 if requirements were increased 50 percent. In the final analysis it is to be expected that the banks would liquidate some of their low-yield securities rather than borrow.

Description in reserve cities and country banks presentelly would draw on their city correspondents for a large part of the additional reserves that they would be required to deposit with Federal Reserve banks. If this were done nost of the mithdrawals would be made from member banks in the large financial centers, particularly New York. The total amount which would be withdrawa from New York, however, even if reserve requirements were increased 50 percent, would not be sufficient to bring about a drain of funds which New York banks and not easily meet. The amount of funds which might be

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- 5 -

withdrawn from New York to meet an increase of 50 percent in reserve requirements is small compared with the huge volume of excess reserves now held by New York City banks in the aggregate.

Should you desire it at any time we can furnish you with excess reserves as of any Wednesday for each of the weekly reporting member banks in New York, Chicago and 99 other leading cities.

CONFIDENTIAL

Movember 5, 1985.

(DRAFT OF PRESS STATEMENT RE RAISING RESERVE REQUIREMENTS)

On Movember ______ the Board of Governors of the Federal Reserve System issued a regulation increasing by 75 percent, effective on ______, the requirements as to reserves to be maintained by member banks against demand and time deposits. The Board's action in this matter was under the authority conferred by the Banking Act of 1985 which amended paragraph 6 of section 19 of the Federal Reserve Act, to provide that, upon the affirmative vote of not less than four of its members, the Board, in order to prevent injurious credit expansion or contraction, may change, within certain limits, the requirements as to reserves to be maintained against deposits by member banks.

The recent increase in member bank reserves has carried them to a level at which they exceed legal requirements by the unprecedented amount of \$5,000,000,000. These excess reserves, if utilized in full, could support an amount of bank credit more than double the existing volume and far greater than can be soundly employed, even with full business recovery. Such a growth of bank credit would constitute an injurious credit expansion.

The increase in reserve requirements should not cause an advance of money rates or tighten credit conditions and should not act as a restraint on the leading policies of banks. It is not, therefore, a reversel of the System's policy of encouraging business recovery by maintaining easy conditions in the money market. After meeting the increased requirements the member banks, in the aggregate, will still

-2-

have \$2,500,000,000 of excess reserves, and these reserves are so widely held that all but a very few member banks are in a position to meet the increase in requirements by the use of their balances with the Reserve bank or with correspondents.

In view of the abundance of reserves in all classes of banks, the Board has made the increase in reserve requirements applicable to all member banks, including country banks as well as banks in central reserve cities and in reserve cities. A survey made by the Board shows that country banks have a larger amount of excess reserves in proportion to their deposits than have reserve city banks and have, in addition, large balances with their city correspondents on which such country banks as do not have sufficient reserves with the Reserve banks can draw for the purpose of meeting the increased requirements. A large part of the existing excess reserves is, in fact, directly or indirectly, owned by country banks which are consequently in fully as good a position as city banks to meet the increase in reserve requirements without curtailing their loans or investments.

The increase of reserve requirements prescribed by the Board will absorb the reserves created in recent months largely by an inflow of gold not arising out of ordinary transactions in international trade and finance, but caused by a movement of funds from foreign countries due to disturbed political and economic donditions. It would not be good policy to have reserves arising from this cause incorporated in our credit base. An advance of 25 percent in requirements at this time will have the effect of restoring excess reserves to the level of last spring, when the recent flight of capital from abroad began.

COPY

FEDERAL RESERVE BANK

OF NEW YORK

November 4, 1935.

F.

Dear Governor Eccles:

Supplementing the tentative minutes of the meeting of the Federal Open Market Committee which I mailed you om October 26, I am transmitting herewith for such action as the Board of Governors may wish to take a revised and final draft of the resolution and motions adopted by the Committee having to do with System open market policy.

Very truly yours,

(signed) W. Randolph Burgess

W. Randolph Burgess Secretary, Federal Open Market Committee

Honorable Marriner S. Eccles, Chairman, Board of Governors of the Federal Reserve System, Washington, D. C.

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Authority EXUTAL 19356

CONFIDENTIAL

RESOLUTION ADOPTED BY FEDERAL OPEN MARKET COMMITTEE, OCTOBER 23, 1935

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still to lend its efforts towards the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and business credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognise that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to control if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let—up in their growth. That being so, the Committee is of the opinion that steps should be taken by the Reserve System as promptly as may be possible to absorb at least some of

these excess reserves, not with a view to checking some further expansion of credit, but rather to put the System in a better position to act effectively in the event that credit expansion should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of short-term Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed, would have the dual effect of absorbing excess reserves and improving the position of the reserve banks, nevertheless, there are two risks in this method. First, that it may be a shock to the bond market, inducing sales of securities by banks all over the country; second, that however it may be explained publicly, it may be misconstrued by the public as a major reversal of credit policy, since this method has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that its advantages do not now justify the risks involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the desirable further extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal

-3-

Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognises that it is going
somewhat beyond its own immediate jurisdiction, but it has found it
impossible to consider open market operations independently from the
whole credit situation and other Federal Reserve policies.

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ACTION TAKEN BY FEDERAL OPEN MARKET COMMITTEE OCTOBER 23, 1955, WITH RESPECT TO OPERATIONS IN THE SYSTEM SPECIAL INVESTMENT ACCOUNT

After a brief discussion of the authority which it was necessary to give the executive committee in order to replace maturities from time to time in the System Account, and in order to make shifts in maturities to meet changing market conditions, it was unanimously

VOTED that superseding previous authorizations, the executive committee be authorised to make shifts between maturities of government securities up to \$500,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$500,000,000.

After discussion as to further authority which should be given to the executive committee in order to keep the committee in a position to act promptly if any occasion for action arose due to causes not now foreseen, it was

VOTED that the executive committee be authorized to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System.

CONFIDENTIAL

November 5, 1935

REASONS FOR RAISING RESERVE REQUIREMENTS AT THIS TIME

Arguments for immediate action

- 1. Number bank reserves at the present time are \$5,000,000,000 in excess of legal requirements. Further increases in excess reserves through gold imports, silver purchases, and through the ultimate use of the gold in the Stabilization Fund may be expected. Demand deposits of member banks are now higher than they ever were and they can be more than doubled on the basis of existing reserves. This would be injurious credit expansion. It will be necessary at some time to use the Board's powers for absorbing excess reserves. It is, therefore, not a question of whether or not the Federal Reserve System will have to act, but merely a question of the best timing of the action.
- 2. It would seem best to take measures for absorbing at least a portion of existing excess reserves before the banks have had an opportunity to expand their activities on the basis of these reserves. The banks are being urged by the Government actively to seek opportunities for extending additional credit and thereby to facilitate recovery. To let them proceed and later, when many of them may no longer have excess reserves, to put them in debt by increasing requirements or selling securities may lay the System open to the charge of inconsistency. Action at such a time, furthermore, might cause banks to liquidate loans or investments and might start a deflationary movement. Early action would avoid these difficulties.
- 5. Gradual advances in reserve requirements started at this time when reserves are ample would be less likely to result in losing members from the Federal Reserve System than would drastic action at a later date.

Page 2

- 4. Banks are now in such a position that an advance in reserve requirements would not inconvenience them and would not act as a restraint on business recovery.
- 5. Action at the present time may have a good psychological effect, indicating that the System is alert to the situation and prepared to take the necessary steps to avoid inflation.

Arguments for raising requirements

- 6. The preceding arguments would apply equally to selling securities and to raising reserve requirements, but raising reserve requirements would have the advantage of making use of a new method which was not available prior to the passage of the Banking Act of 1985. Previously reserves could not be advanced, except by the declaration of an emergency and with approval of the President. The use of this method new enables the System to say that it could not have soted sooner because of lack of authority.
- 7. Raising reserve requirements would have the additional advantage over selling Government accurities that it would not have any unfavorable effect on the market for these accurities.
- 8. It would also have the advantage of not diminishing the earning assets of the Federal reserve banks, which may become a serious matter if these banks should be put in a position where they would have to go to Congress for appropriations.
- 9. It may be a good general policy to use changes in reserve requirements as a method of readjusting the banking position to new conditions, such as the present unprecedented reserves, and to use the traditional methods of open market operations and discount rates as the instruments for direct influence on expansion or contraction of credit.

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Page 5

By raising reserve requirements gradually to a point where excess reserves would not be very large, the Reserve banks would be placed in a position to use open-market sales, which are more flexible, to counteract inflationary tendencies.

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November 5, 1955

REASONS AGAINST RAISING RESERVE REQUIREMENTS AT THIS TIME

- 1. There is at this time no indication of an expansion of credit and, therefore, no real occasion for taking any action of a restraining character.
- 2. Federal Reserve policy should depend in part on its psychological effect. For that reason it ought to be extremely simple. The public should know that when the Federal Reserve System does anything in the direction of restraint that this constitutes a policy of restraint. A simple understanding of red and green signals of credit policy is an advantage which may be lost or impaired by actions that require more or less subtle explanation.
- 5. The System's powers for counteracting the enormous volume of excess reserves now in existence and in prespect are limited. The open-market portfolio is \$2,400,000,000 and the maximum by which reserve requirements may be raised amounts to a similar figure. Excess reserves might become larger than could be counteracted by both of these instruments. Their full utilization, furthermore, particularly the sale of Government securities in large volume, may be a difficult matter. For this reason, it might be better policy to bushand the System's resources in order to be in a position to utilize them to the maximum effect when the need comes.
- 4. Action at the present time might, even though it should not, result in a more hemitant attitude on the part of banks and might, therefore, retard recovery.

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333.3-4 November 5, 1935

(DRAFT OF PRESS STATEMENT RE RAISING RESERVE REQUIREMENTS)

Married

System issued a regulation increasing by 25 percent, effective on _______, the requirements as to reserves to be maintained by member banks against demand and time deposits. The Board's action in this matter was under the authority conferred by the Banking Act of 1935 which amended paragraph 6 of section 19 of the Federal Reserve Act, to provide that, upon the affirmative vote of not less than four of its members, the Board, in order to prevent injurious credit expansion or contraction, may change, within certain limits, the requirements as to reserves to be maintained against deposits by member banks.

The recent increase in member bank reserves has carried them to a level at which they exceed legal requirements by the unprecedented amount of \$3,000,000,000. These excess reserves, if utilized in full, could support an amount of bank credit more than double the existing volume and far greater than can be soundly employed, even with full business recovery. Such a growth of bank credit would constitute an injurious credit expansion.

The increase in reserve requirements should not cause an advance of money rates or tighten credit conditions and should not act as a restraint on the leading policies of banks. It is not, therefore, a reversal of the System's policy of encouraging business recovery by maintaining easy conditions in the money market. After meeting the increased requirements the member banks, in the aggregate, will still

Page 2.

have \$2,300,000,000 of excess reserves, and these reserves are so widely held that all but a very few member banks are in a position to meet the increase in requirements by the use of their balances with the Reserve bank or with correspondents.

In view of the abundance of reserves in all classes of banks, the Board has made the increase in reserve requirements applicable to all member banks, including country banks as well as banks in central reserve cities and in reserve cities. A survey made by the Board shows that country banks have a larger amount of excess reserves in proportion to their deposits than have reserve city banks and have, in addition, large balances with their city correspondents on which such country banks as do not have sufficient reserves with the Reserve banks can draw for the purpose of meeting the increased requirements. A large part of the existing excess reserves is, in fact, directly or indirectly, ewned by country banks which are consequently in fully as good a position as city banks to meet the increase in reserve requirements without curtailing their loans or investments.

The increase of reserve requirements prescribed by the Beard will absorb the reserves created in recent months largely by an inflow of gold not arising out of ordinary transactions in international trade and finance, but caused by a movement of funds from foreign countries due to disturbed political and economic conditions. It would not be good policy to have reserves arising from this cause incorporated in our credit base. An advance of 25 percent in requirements at this time will have the effect of restering excess reserves to the level of last spring, when the recent flight of capital from abroad began.

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November 5, 1935

REASONS FOR RAISING RUSERVE REQUIREMENTS AT THIS TIME

Arguments for immediate action

Variant

- 1. Hember bank reserves at the present time are \$3,000,000,000 in excess of legal requirements. Further increases in excess reserves through gold imports, silver purchases, and through the ultimate use of the gold in the Stabilization Fund may be expected. Demand deposits of member banks are now higher than they ever were and they can be more than doubled on the basis of existing reserves. This would be injurious credit expansion. It will be necessary at some time to use the Board's powers for absorbing excess reserves. It is, therefore, not a question of whether or not the Federal Reserve System will have to act, but merely a question of the best timing of the action.
- 2. It would seem best to take measures for absorbing at least a portion of existing excess reserves before the banks have had an epportunity to expand their activities on the basis of these reserves. The banks are being urged by the Government actively to seek opportunities for extending additional credit and thereby to facilitate recovery. To let then proceed and later, when many of them may no longer have excess reserves, to put them in debt by increasing requirements or selling securities may lay the System open to the charge of inconsistency. Action at such a time, furthermore, might cause banks to liquidate loans or investments and might start a deflationary movement. Early action would avoid these difficulties.
- 3. Gradual advances in reserve requirements started at this time when reserves are ample would be less likely to result in losing members from the Federal Reserve System than would drastic action at a later date.

Page 2

- 4. Banks are now in such a position that an advance in reserve requirements would not inconvenience them and would not act as a restraint on business recovery.
- 5. Action at the present time may have a good psychological effect, indicating that the System is alert to the situation and prepared to take the necessary steps to avoid inflation.

Arguments for raising requirements

- 6. The preceding arguments would apply equally to selling securities and to raising reserve requirements, but raising reserve requirements would have the advantage of making use of a new method which was not available prior to the passage of the Banking Act of 1935. Previously reserves could not be advanced, except by the declaration of an emergency and with approval of the President. The use of this method new enables the System to say that it could not have acted sooner because of lack of authority.
- 7. Raising reserve requirements would have the additional advantage over selling Government securities that it would not have any unfavorable effect on the market for these securities.
- 5. It would also have the advantage of not diminishing the earning assets of the Federal Reserve banks, which may become a serious matter if these banks should be put in a position where they would have to go to Congress for appropriations.
- 9. It may be a good general policy to use changes in reserve requirements as a method of readjusting the banking position to new conditions, such as the present unprecedented reserves, and to use the traditional methods of open market operations and discount rates as the instruments for direct influence on expansion or contraction of credit.

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Page 3

By raising reserve requirements gradually to a point where excess reserves would not be very large, the Reserve banks would be placed in a position to use open-market sales, which are more flexible, to counterast inflationary tendencies.

J.C.

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333.3-A_ November 5, 1935

REASONS AGAINST BAISING RESERVE REQUIREMENTS AT THES TIME

- There is at this time no indication of an expansion of aredit and, therefore, no real occasion for taking any action of a restraining character.
- 2. Federal Reserve policy should depend in part on its psychological effect. For that reason it ought to be extremely simple. The public should know that when the Federal Reserve System does anything in the direction of restraint that this constitutes a policy of restraint. A simple understanding of red and green signals of credit policy is an advantage which may be lost or impaired by actions that require more or less subtle explanation.
- 3. The System's powers for counteracting the enormous volume of excess reserves now in existence and in prospect are limited. The open-market portfolic is \$2,400,000,000 and the maximum by which reserve requirements may be raised amounts to a similar figure. Excess reserves might become larger than could be counteracted by both of these instruments. Their full utilisation, furthermore, particularly the sale of Government securities in large volume, may be a difficult matter. For this reason, it might be better policy to husband the System's resources in order to be in a position to utilise them to the maximum effect when the need comes.
- 4. Action at the present time might, even though it should not, result in a more hesitant attitude on the part of banks and might, therefore, retard recovery.

MINUTER ON

NOV 6 - 1935

Mr. W. Randolph Burgess, Secretary, Pederal Open Market Committee, Care Federal Reserve Bank of New York, Su 333.3-201 New York, New York.

Dear Mr. Burgess:

Chairman Eccles has requested me to acknowledge receipt of your letter of October 26, 1935, with which you inclosed a tentative draft of the minutes of the meeting of the Federal Open Market Committee in Washington on October 22-24, 1935, and to advise you that he has no suggestions to make with regard thereto.

It is noted that Mr. Clayton is shown as being present at the meeting of the Federal Open Market Committee with the Board of Governors on October 24. However, Mr. Clayton did not join the meeting until it convened as a meeting of the Board with the Governors' Conference.

In accordance with our telephone conversation of November 2, 1935, it is understood that, in preparing the final draft of the minutes you will also prepare for the Board a separate record of the actions taken at the meeting, the votes cast in connection therewith, and the reasons underlying each such action, for the purpose of enabling the Board to meet the requirements of the last paragraph of section 10 of the Federal Reserve Act, as smended by the Banking Act of 1955.

Very truly yours,

Chester Morrill,

Nel ans 11/6/35

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333.3-a

FEDERAL RESERVE BANK OF NEW YORK

November 4, 1935.

Dear Governor Eccles:

Supplementing the tentative minutes of the meeting of the Federal Open Market Committee which I mailed you on October 26, I am transmitting herewith for such action as the Board of Governors may wish to take a revised and final draft of the resolution and motions adopted by the committee having to do with System open market policy.

Very truly yours,

landoge in

W. Randolph Burgess Secretary, Federal Open Market Committee

Honorable Marriner S. Eccles, Chairman, Board of Governors of the Federal Reserve System, Washington, D. C.

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RESOLUTION ADOPTED BY FEDERAL OPEN MARKET COMMITTEE, OCTOBER 23, 1935

The Committee reviewed the preliminary memorandum submitted by the Chairman and discussed at length business and credit conditions and the banking position in relation to them. It was the unanimous opinion of the Committee that the primary objective of the System at the present time is still to lend its efforts towards the furtherance of recovery. While much progress has been made, it cannot be said that business activity on the whole is yet normal, or that the effects of the depression are yet overcome. Statistics of business activity and business credit activity, both short and long term, do not now show any undue expansion. In these circumstances, the Committee was unanimously of the opinion that there is nothing in the business or credit situation which at this time necessitates the adoption of any policy designed to retard credit expansion.

But the Committee cannot fail to recognize that the rapid growth of bank deposits and bank reserves in the past year and a half is building up a credit base which may be very difficult to centrol if undue credit expansion should become evident. The continued large imports of gold and silver serve to increase the magnitude of that problem. Even now actual reserves of member banks are more than double their requirements, and there is no evidence of a let-up in their growth. That being so, the Committee is of the opinion that steps should be taken by the Reserve System as promptly as may be possible to absorb at least some of these excess reserves, not with a view to checking some further expansion

- 2 -

of credit, but rather to put the System in a better position to act effectively in the event that credit expansion should go too far.

Two methods of absorbing excess reserves have been discussed by the Committee: (a) the sale of short-term Government securities by the Federal Reserve System, and (b) the raising of reserve requirements.

While the Committee feels that method (a), if employed, would have the dual effect of absorbing excess reserves and improving the position of the reserve banks, nevertheless, there are two risks in this method. First, that it may be a shock to the bond market, inducing sales of securities by banks all over the country; second, that however it may be explained publicly, it may be misconstrued by the public as a major reversal of credit policy, since this method has never been employed except as a means of restraint, which is not desired at this time. A majority of the Committee is opposed to the sale of Government securities at this time, believing that its advantages do not now justify the risks involved in this method of dealing with the subject.

There are also risks incident to method (b), - raising reserve requirements. This method of control is new and untried and may possibly prove at this time to be an undue and restraining influence on the desirable further extension of bank credit. The Committee feels, therefore, that before this method of dealing with the problem of excess reserves is employed, it would be wise for the Board of Governors of the Federal Reserve System to make a thorough study, through the twelve Federal Reserve Banks, of the amount and location of excess

- 3 -

reserves by districts and by classes of banks, in order thus to determine whether, or to what extent if at all, an increase in reserve requirements might interfere with the extension of loans and investments of member banks.

In view of the monetary powers now possessed by the Treasury, the Committee is impressed with the importance of advising with the Treasury relative to any steps that may be taken by the Reserve System in order as far as possible to insure reasonable coordination of action.

Furthermore, the Committee recognizes the possible dangers of the public misunderstanding of any action which may be taken in this matter, and would favor a careful public statement before action is taken.

In making these suggestions to the Board of Governors regarding reserve requirements, the Committee recognizes that it is going somewhat beyond its own immediate jurisdiction, but it has found it impossible to consider open market operations independently from the whole credit situation and other Federal Reserve policies.

CONFIDENTIAL

RESPECT TO OPERATIONS IN THE SYSTEM SPECIAL INVESTMENT ACCOUNT

After a brief discussion of the authority which it was necessary to give the executive committee in order to replace maturities from time to time in the System Account, and in order to make shifts in maturities to meet changing market conditions, it was unanimously

VOTED that superseding previous authorizations, the executive committee be authorized to make shifts between maturities of government securities up to \$300,000,000, provided that the amount of securities maturing within two years be maintained at not less than \$1,000,000,000 and that the amount of bonds be not over \$500,000,000.

* After discussion as to further authority which should be given to the executive committee in order to keep the committee in a position to act promptly if any occasion for action arose due to causes not now foreseen, it was

VOTED that the executive committee be authorized to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Board of Governors of the Federal Reserve System.

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FEDERAL RESERVE BANK OF NEW YORK

CONFIDENTIAL

November 4, 1935.

Dear Governor Eccles:

I have taken a whack at a possible statement to be issued by the Board of Governors in the event that it should be decided to increase reserve requirements. It has been put down on paper rather hastily since, in our conversation this afternoon, you indicated you would like to have a draft tomorrow morning. I have tried to make it as short and as nontechnical as possible, having in mind the advisability of avoiding unnecessary controversy as to details.

I shall take a copy home with me tonight and if I have any second thoughts concerning this draft I shall get in touch with you sometime late tomorrow or early Wednesday morning. It's not as easy as I thought it would be!

Faithfully yours,

Hon. Marriner S. Eccles, Chairman, Board of Governors of the Federal Reserve System, Washington, D.C.

Enc.

November 4, 1935.

The Banking Act of 1935 authorizes the Board of Governors of the Federal Reserve System to increase reserves required to be maintained by member banks against demand or time deposits, in order to prevent injurious credit expansion.

In the opinion of the Board there is now no evidence, either in the figures of bank credit or of business activity, that injurious credit expansion is taking place, nor is there any occasion to reverse the present credit policy of the Federal Reserve System which is designed to facilitate an increased use of credit and an increase in production and employment.

The present reserve position of the member banks, which is chiefly the result of an unprecedented inflow of gold to this country from abroad, does, however, make possible an injurious expansion of credit in the future. The amount of reserve funds now held by the member banks totaling \$ is more than double the amount of the reserve which such member banks are required to maintain. There are, therefore, excess which could support an expansion reserves totaling \$ of bank credit far greater than can be usefully and soundly employed with a full business recovery. Such a surplus of reserve funds lying idle constitutes a danger to the country's economy and it is prudent, therefore, that action be taken now not to restrain present credit expansion, but with a view toward preventing injurious expansion in the future. For this reason the Board of Governors of the Federal Reserve System will raise the reserves required to be maintained by member banks by

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amount on

The change which is ordered will have the effect of immobilizing a part of the present excess reserves. It will leave with the banks as free reserves a sufficient amount to support a much further expansion of bank credit. This action should not, therefore, act as a restraint upon the lending policies of banks generally, but on the contrary, should give confidence to the banks and to the public by making more certain the proper control of credit in the future.

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To:

Chairman Eccles

From: Mr. Smead

Date: Novembe. 1, 1935

Subject: Excess reserves of

member banks.

Durded

On October 30 excess reserves of member banks amounted to \$3,011,000,000, or about \$600,000,000 above the amount reported for June 29, 1935*, and about \$380,000,000 more than average daily excess reserves for the month of September, when they amounted to \$2,628,000,000. The average daily excess reserves during the month of September of central reserve city, reserve city, and country banks, in each Federal Reserve district, were as follows:

Federal Reserve districts	Central re- serve city banks	Reserve city banks	Country banks	
Boston New York Philadelphia Cleveland	\$1 , 177 , 000 ,000	\$125,000,000 3,000,000 75,000,000 129,000,000	\$43,000,000 81,000,000 32,000,000 43,000,000	
Richmond Atlanta Chicago St. Louis	24 6, 000 , 000	56,000,000 21,000,000 74,000,000 54,000,000	31,000,000 25,000,000 69,000,000 23,000,000	
Kansas City	MINUTER ON NOV 6 - 1935	25,000,000 50,000,000 20,000,000 102,000,000	35,000,000 41,000,000 32,000,000 16,000,000	
Total	\$1,423,000,000	\$ 734, 000,000	\$471,000,000	

Excess reserves of New York and Chicago banks on October 30 were about \$200,000,000 and \$90,000,000, respectively, above the September averages. Later figures for reserve city and for country banks separately are not available, but the combined average for these two classes of banks for the month of September, \$1,205,000,000, was approximately \$100,000,000 less than at present and not much above the figures for June 29.

*Calculated in accordance with the formula used since the passage of the Banking Act of 1935.

Chairman Eccles - 2

The last date for which we have figures of required and excess reserves of each member bank is June 29, 1935, the date of the last call report. On the basis of the June 29 condition reports 129 member banks had deficiencies in reserves, 768 had excess reserves of 25 per cent or less, 1,144 banks had excess reserves amounting to between 26 and 50 per cent of required reserves, and 4,369 had excess reserves amounting to more than 50 per cent of required reserves. The following is a distribution of the number of central reserve city, reserve city, and country banks on June 29, 1935, according to the ratio of excess reserves to required reserves:

	Total number of member banks	t e	reserve banks Chi- cago	Re- serve city banks	Country banks
Total number of member banks	6,410	38	18	329	6,025
Number with deficient reserves	129	* 7		12	110
Number with excess reserves amounting to the following percentages of required reserves:	-				
25 per cent or less	768	8	2	74	684
26-50 per cent	1,144	9	3	72	1,060
51-100 per cent	1,529	7	5	69	1,448
101-200 per cent	1,278	4	6	50	1,218
Over 200 per cent	1,562	3	2	52	1,505

It will be noted that 17 central reserve city banks, 86 reserve city banks, and 794 country banks did not have sufficient reserves to meet an increase of 25 per cent in requirements. These figures represent 30 per cent of the total number of central reserve city banks and 26 per cent of the total number of reserve city banks, but only 13 per cent of the total number of country banks.

*On the basis of average figures for the semi-weekly reserve computation period ended October 25 no member bank in New York City had a deficiency in reserves, but 14 had excess reserves amounting to 25 per cent or less of required reserves.

In case reserve requirements were raised to 125 percent or to 150 percent of present requirements, there would be a certain number of banks which would not have sufficient excess reserves to meet the increase without drawing down their balances with other banks, selling securities, or borrowing from the Federal Reserve banks. The number of banks that would be in that position and the amount of additional reserves that they would have to secure is indicated by classes of banks and by Federal Reserve districts in the following table:

	If required were increa		If required reserves were increased 50%				
	Number of banks with insufficient reserves	Additional reserves required	Number of banks with insufficient reserves	Additional reserves required			
Total - all member banks	897	\$99 ,377, 00 0	2,041	\$327,820,000			
Central reserve city bank	S :						
New York City	15	37,461,000	24	150,024,000			
Chicago	2	510,000	5	1,734,000			
Reserve city banks	86	45,910,000	158	129,859,000			
Country banks	794	15,496,000	1,854	46,203,000			
Total for each district:							
Boston	95	5,283,000	164	13,344,000			
New York	145	46,882,000	288	172,388,000			
Philadelphia	137	6,104,000	319	18,894,000			
Cleveland	84	11,526,000	196	28,431,000			
Richmond	51	2,604,000	130	8,921,000			
Atlanta	45	2,259,000	113	8,758,000			
Chicago	52	3,957,000	117	12,469,000			
St. Louis	42	1,307,000	102	4,788,000			
Minneapolis	54	755,000	136	2,141,000			
Kansas City	53	3,234,000	133	11,742,000			
Dallas	79	826,000	189	4,758,000			
San Francisco	60	14,640,000	154	41,186,000			
<u>k</u>							

As indicated in the table, if reserve requirements were increased 25%, 897 banks would have to provide \$99,000,000 of additional reserves; and if require-

- 4 -

ments were increased 50%, 2,041 banks would have to provide \$328,000,000 of additional reserves.

Of the 897 banks which would have to increase their reserves to bring them up to 125 percent of requirements, all but 45 had balances with correspondent banks sufficient to provide the additional reserves. Likewise, of the 2,041 banks that would have to increase their reserves to bring them up to 150 percent of requirements, all but 125 had balances with correspondents sufficient to meet the increase. The extent to which such balances would be used for the purpose of meeting an increase in reserve requirements and the extent to which such an increase would be met by borrowing or by selling securities is impossible to tell from available information.

In the event of an increase in reserve requirements, a number of member banks in New York City would presumably have to either sell securities or borrow to meet the greater part of the additional requirements of \$37,000,000, if requirements were increased 25 percent, or \$150,000,000 if requirements were increased 50 percent. In the final analysis it is to be expected that the banks would liquidate some of their low-yield securities rather than borrow.

Member banks in reserve cities and country banks presumably would draw on their city correspondents for a large part of the additional reserves that they would be required to deposit with Federal Reserve banks. If this were done most of the withdrawals would be made from member banks in the large financial centers, particularly New York. The total amount which would be withdrawn from New York, however, even if reserve requirements were increased 50 percent, would not be sufficient to bring about a drain of funds which New York banks could not easily meet. The amount of funds which might be

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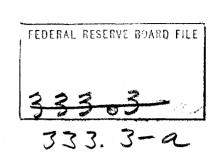
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withdrawn from New York to meet an increase of 50 percent in reserve requirements is small compared with the huge volume of excess reserves now held by New York City banks in the aggregate.

Should you desire it at any time we can furnish you with excess reserves as of any Wednesday for each of the weekly reporting member banks in New York, Chicago and 99 other leading cities.

FEDERAL RESERVE BANK OF NEW YORK



October 31, 1935.

Dear Governor Eccles:

In accordance with your conversation with Governor Harrison today, I am writing to inform you that at its meeting this afternoon our board of directors voted that the officers be authorized and instructed to sell the \$23,805,200 of United States Government bonds held in this bank's own investment account, as and when the market for such securities will conveniently permit of such disposal, and to purchase an equivalent amount of United States Government securities of shorter maturities.

The bond holdings in this bank's investment account affected by the above action of our board of directors are now as follows:

3	1/4%	Treasury	bonds	of	1941	\$4,171, 200
B	3/8%	tt	11	11	1941-3	750,000
3	3/8%	11	11	11	1940-3	10,262,000
3	3/8%	11	11	11	1943-7	4,267,000
2	7/8%	. 11	11	11	1955-6 0	4,355,000
						\$23,805,200

The directors were moved to take this action because (a) this bank at present has no need to hold bonds in its portfolio in order to maintain its earnings and, as a general rule, the directors would prefer to confine investments in this account to securities of shorter maturity;

(b) because of the possibility that the System may later decide to increase the amount of bonds in the System special investment account, as was discussed at the recent meeting of the Federal Open Market Committee, in which event this bank may find itself acquiring further bond holdings as part of its

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participation in the System account, and (c) because of the possibility that under certain circumstances this bank later may find it necessary to buy government bonds from some of its member banks, especially if reserve requirements should be substantially increased.

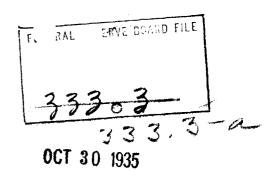
It is anticipated that this operation will be spread over a number of weeks, advantage being taken of periods of strength in the market to effect sales, and the appearance of a large change in the maturity distribution of our published holdings, in any one week, being avoided.

Respectfully,

Alla Sproul Secretary.

Honorable Marriner S. Eccles, Chairman, Board of Governors of the Federal Reserve System, Washington, D. C.

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Mr. Walter Lichtenstein, Secretary, Federal Advisory Council, 58 South Dearborn Street, Chicago, Tilinois.

Dear Sir:

Carded

At the meeting of members of the Board of Governors of the Federal Reserve System with the Federal Advisory Council on September 24, 1958, the Council submitted to the Board a statement reading as follows:

"The Pederal Advisory Council wishes to call the attention of the Board of Covernors of the Federal Reserve System to the existence in the system of large amounts of Covernment bond holdings which have not varied for a long time. The whole theory of spen market operations is to have sufficient flexibility to prevent undus expansion and contraction in the credit structure of the country and this may become impossible if the amount of Covernment bond holdings by the Federal reserve system is allowed to become a constant quantity. The Council would like to know whether the Board agrees with the principle here enunciated."

The statement has been presented at a meeting of the Board and I have been requested to advise the Council through you that the Board is fully engained of the necessity for the consideration of the factors referred to in the statement as elements in the determination of open market policy.

Other factors and considerations besides these mentioned in the Council's memorandum must also be weighed, if a well-conceived

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Mr. Walter Lichtenstein

and well-sdjusted open market policy for the Federal Reserve System is to result. These further factors and considerations have the constant attention of the Board's Division of Research and are the

subject of frequent review by the Hoard end also by the Wedsral Open

Market Committee.

If the Council has any proposals to make with respect to the operation of the open market account of the Federal Reserve. System, which it believes to be partiaent in the existing situation, all factors considered, the Board will, as in the past, be glad to receive them and consider them.

Very truly yours.

(Signed) Chaster Morrill

Chester Morrill, Secretary.

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PRELIMINARY MEMORANDUM ON MONEY MARKET AND CREDIT CONDITIONS FOR THE FEDERAL OPEN MARKET COMMITTEE, OCTOBER 22. 1935.

Excess Reserves and Federal Reserve Policy

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Five months have passed since the last meeting of the Federal Open Market Committee when we discussed Federal Reserve policy with particular reference to the question of excess reserves. During this period the System holdings of government securities and total Reserve Bank credit outstanding have remained virtually unchanged, but excess reserves have increased from \$2,180,000,000 on March 6 to \$2,910,000,000 on October 16. This increase has been due mainly to further gold inflow, and to a less extent to Treasury disbursements of free gold and an increase in silver certificates in excess of retirements of national bank notes.

In attempting to reappraise our policy with respect to excess reserves at the present time, we must find answers to two questions. First, what evidence is there that our present policy is having desirable results? Second, what dangers are there that a continuance of the present policy may have undesirable results? Having answered these questions, we shall be in a better position to consider whether and when and in what ways our policy might wisely be changed.

As stated in a memorandum presented at a meeting of the Executive

Committee on April 17, the theory of creating excess reserves was that in a depression, when the capacity and willingness of banks to lend and of private enterprise to borrow have been impaired, excess reserves would put pressure on the banks to buy government securities, thus forcing down the yield on these securities to the point where bank and other investment funds would flow over into private capital investment. The signs then discernible that this pressure had begun to work have since become clearer. One very favorable indication is the progress of the government war debt conversion program, which has now been entirely completed. There have been converted over \$8,000,000,000 of bonds into bonds and long-term

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notes at a saving of over 1% on the bonds and more on the notes. Probably the chief financial development of the last seven months has been the appearance in large volume of private refunding issues bearing interest rate reductions of from 1% to 1 3/4%. During the seven months period ended with September, over \$1,300,000,000 of domestic corporate refunding operations were conducted. In addition, there was \$750,000,000 of state, municipal, and farm loan refunding, exclusive of government guaranteed issues. This is evidence that the reduction of yields on short-time investments and on government securities is having its expected effect upon the yields of corporate and other bonds.

In this period, also, the signs of business revival have become clearer. Perhaps the best evidence is that the decline this year from the spring peak of business activity was markedly less than in any year since the depression began, and was arrested earlier than is usual. From the high point of January, general business activity lost by May only about 25% of the previous advance, since which time the index of production has tended moderately upward. In the three preceding wave movements since the bottom of the depression in 1932, from two-thirds to 100% of each upward movement was lost in the subsequent decline. At present it appears that a number of consumer goods industries are nearly back to their predepression level. The automobile industry has made a notable recovery, although at the moment production is low owing to the early introduction of new models. The heavy goods industries still remain the center of the depression but steel production has now recovered to 50% of capacity and machine tool orders recently have made the best showing since 1929, although they have declined somewhat in the last two months.

There is thus some fairly clear evidence both in interest rates and in the state of business that our long-continued policy of easy money and excess reserves is having the desired results. To what extent these results should be

ascribed primarily to credit policy or to other factors is now, as always, problematical. Doubtless, the long duration of depression and the consequent wearout and obsolescence of durable goods has been an important, and perhaps the chief, factor in recovery. Also, the strengthening of the capital structure of the banking system undoubtedly played a large part in stopping the cumulative processes of hoarding and deflation. Another important factor has been the rise of agricultural prices and the consequent increase of farm income. Another factor in all probability, though this has been a much debated question, has been the government spending program. But there can be no doubt that the presence of large excess reserves has played a fundamental role, not only in financing governmental expenditures but also in paving the way for the revival of private capital investment.

As the process continues, we should expect to see its effects in further expansion of bank deposits and bank assets. Already the expansion of bank deposits has proceeded at a pace that has been exceeded only during the World War. Net demand deposits of weekly reporting member banks (91 cities) have increased by \$6,400,000,000 since March 1933, and \$1,400,000,000 of this increase has occurred in the past seven months. The total of net demand and time deposits of these banks, exclusive of government deposits, now amount to more than \$20,000,000,000 and exceed the pre-depression level. Time deposits remain substantially smaller than in 1929-1930, and demand deposits in "country" member banks (which are not largely represented in the weekly reporting member banks) are still considerably below 1928-1929 levels, but have shown a rate of expansion during the past year nearly as rapid as in the city banks. On the other hand, loans and investments of the reporting member banks have made a more moderate recovery, amounting to

⁽¹⁾ The latest figures of deposits of all banks in the country are for December 31, 1934, when the total was \$44,800,000,000, exclusive of interbank deposits. This is the highest since the December 1931 call. The peak of deposits of all banks was approximately \$56,800,000,000.

\$3,315,000,000 (October 9) since March 1933. This change has resulted from an increase of \$4,153,000,000 in bank holdings of U. S. government securities, including government guaranteed securities, accompanied by a decline of \$807,000,000 in loans, and little change in securities other than governments. Since last March total loans and investments of banks have shown a net increase of \$581,000,000. Loans on securities have decreased moderately to the lowest levels of recent years, and all other loans are little changed for the period, a seasonal increase of \$200,000,000 in the last two months having offset an earlier decline. On the other hand, an increase of \$801,000,000 has occurred in bank investments, of which government securities have accounted for \$682,000,000.

These figures indicate, first, that our easy money policy and the monetary and fiscal policy of the government have been followed by an extraordinary expansion of bank deposits, which thus far has come primarily from expansion of bank investments in government securities and from heavy gold inflow (and in the first few months after the bank holiday from return of currency from hoarding); and second, that in the aggregate the recovery of private business has thus far not been financed by private borrowing from banks. It is not unusual in an early stage of recovery from depression for business expansion to be financed out of corporate funds previously idle or invested outside the business. In this connection, refunding issues themselves become a source of funds available for further production, in so far as they release earnings which might otherwise have to be set aside to pay off or reduce maturing capital issues. But this phase of recovery is usually preliminary to borrowing of new money, and before we can accept present indications as conclusive evidence that business revival is firmly established, we must look for an increase both in bank assets other than government securities and in new corporate issues. It is especially important, during this recovery, to watch for these developments because, in the present instance, government borrowing and

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spending are undoubtedly supplying an important part of the funds which industry is using, and the transition from public to private spending, as recovery proceeds, should be indicated by a transition from government security flotations to new corporate issues and private borrowing from banks.

This brief review of the business and financial situation appears to indicate that our credit policy is now being accompanied, quite definitely, by desirable developments. What are the dangers which may arise from a continuance of this policy, and what are the sign posts which should tell us when and how to change it?

There are two possible dangers from a continuance of our present policy. The first is inflation arising from expansion of public credit through the continued financing by the banks of government budgetary deficits. The second is inflation arising from expansion of private credit. The first danger is that with which we were primarily concerned in the memorandum presented last April. As was then indicated, there is an important difference between the effects of pressure of excess bank reserves against a fixed total of government debt and this same pressure when exerted against a continuously increasing volume of public debt. In the latter case, there is danger that the overflow of bank funds into private channels may not occur, that the banks will become more and more heavily loaded with government securities, and the government do a larger and larger part of the nation's borrowing and spending. In the experience of other nations a longcontinued process of governmental deficit financing through the banking system has always led at some point to rapidly rising prices, either through actual monetary expansion or through fear of potential expansion, and at this point the process has always become cumulatively uncontrollable, government deficits rising by reason of the rise of prices and the lag of revenue behind expenditures, the whole process

being attended by grave economic and political disruption and disorder terminating in collapse.

The continuance of our present policy, as was pointed out in the earlier memorandum, rests upon the assumption that this danger can be avoided. an important economic difference between budgetary deficits arising from extraordinary expenditures of a compelling nature, such as the financing of a war or huge indemnity payments, and budgetary deficits resulting from depression. There is a definite economic basis for the theory that in the latter case a reversal of the forces which in depression produce the deficits should in recovery correct them, for as recovery proceeds the need for extraordinary government expenditure should be reduced and government revenue should be increased through the reemployment of the factors of production. But, on the other hand, it would be both naive and dangerous to suppose that the process is self-operative, and that recovery will now automatically correct the budgetary deficit. If the basis of our present policy of continuance of large excess reserves is correct, namely, that recovery from depression affords an opportunity for transition from public to private spending but that failure to seize this opportunity at the proper time can have only harmful results, it will be necessary from this time forward to keep a close watch upon the course of government revenue and expenditure.

The threat of uncontrollable government inflation now appears to be less than it did to many observers last winter. This is true not only because the recovery appears really to be under way, but also because the deficits themselves are proving to be considerably less than was feared six months or a year ago. The actual deficit for the past fiscal year was \$3,575,000,000, including \$574,000,000 of sinking fund, as compared with the official estimate of \$4,869,000,000. Though the original estimate was doubtless overstated deliberately, the decrease has been due also to the increase of revenue and to the lag of actual expenditure behind the

estimates. It has been easier to appropriate money than to devise the means of spending it; the result is that expenditures are still being made to a large extent out of appropriations from the preceding fiscal year and actual expenditures continue to run behind the estimates. In the past 3 months, actual net expenditures have averaged \$275,000,000 a month as against the first official estimate for this fiscal year's deficit of \$4,529,000,000 which has been revised to \$3,282,000,000 in the President's recent budget message. There is also some recent evidence of a desire on the part of the Administration to control extraordinary expenditures.

It would be unsafe, however, to assume that the government's spending program will dry up from either lack of desire or lack of ability to find ways to spend the money. There are still some 19,000,000 people on relief, there is the \$4,800,000,000 appropriated by the last Congress, there is every indication of a renewed drive in the next session of Congress for a bonus law which, if enacted, would probably add some \$2,000,000,000 of extraordinary expenditure, and a Presidential election is approaching. Probably the most serious problem now bearing upon our policy regarding excess reserves arises from the contemplation of these actual and potential extraordinary appropriations. What will be their effect upon the business recovery which is now under way? If business confidence is not shaken and if the banks continue to absorb government securities, public spending on such a scale as this might well impart an undue stimulus to business activity. It is not impossible that we might find ourselves, much sooner than we now think, facing our second danger, that of undue private business and credit expansion. On the other hand, if such a program of public spending, particularly if the bonus is added, should shake business confidence and impair the ability or willingness of the market to absorb government securities, we might find ourselves facing the first danger outlined above, pure governmental inflation.

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The possibilities which have been discussed do not, however, appear to necessitate as yet any change in our policy regarding excess reserves. They merely raise questions for the future and indicate what factors in the current situation should be most closely watched. If this really is the beginning of a genuine recovery, it ought to mean that steps will be taken looking toward, not an immediate balancing of the budget, but some fairly definite schedule of tapering off extraordinary expenditures, the speed with which that is done depending upon the progress of recovery. It may well be that we shall have a permanent problem of relief as England has. The very fact that relief has been organized on a national scale may mean that unemployables previously taken care of informally and privately will become permanently a charge upon the public budget. Passage of the social security legislation, which is desirable in principle, almost certainly means a permanent increase in relief expenditures as compared with the pre-depression period. But the important considerations should be that such expenditures should be kept down to the adequate minimum, and above all that they should be made to find their place in a balanced budget.

If, as recovery proceeds, the effective steps are not taken toward budget balancing, there would certainly be ground for questioning whether the Reserve System is justified in continuing its present policy with respect to its security portfolio and excess reserves. We need not stop to consider anew the difficulties of making a reversal of our policy effective under such circumstances. Some of them have already been discussed in the earlier memorandum, such as the Stabilization Fund and the powers granted in the Thomas Amendment, whereby the Administration could easily override our efforts if it chose to do so. There is the further very practical difficulty that if we should attempt to sell our securities to the market, which at the same time was being offered new government issues to finance budgetary deficits, the result might be such an impairment of the market as might

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not only give a severe setback to business recovery but force the government along the road toward inconvertible currency inflation, which so far it has avoided. The mere mention of these possibilities indicates how indispensable it is for the Reserve System and the Administration to cooperate in the formulation of a program best suited to recovery and to the transition from public to private spending which should accompany recovery.

If matters proceed satisfactorily in this regard, the larger question for the future will be the relation of our policy to the progress of business recovery. There is the very definite possibility that private credit expansion, once it gets under way, may be difficult to hold within wholesome bounds. Total reserves are now more than double required reserves and interest rates are unprecedentedly low. As has frequently been pointed out in our earlier discussions, we ought not to allow our fears as to how we are to control credit expansion in the future to obscure our realization that in some form and to some extent such expansion is not only inevitable but desirable if we are to have a genuine and complete recovery. What the Reserve System ought now to be considering very seriously is both the methods whereby credit expansion is to be controlled in the future and the timing of this program of control. One previous source of rapid credit expansion peculiarly difficult to control, stock exchange speculation, has received special attention during the depression, and it seems probable that the new powers of the Board of Governors of the Federal Reserve System and of the Securities Exchange Commission to govern not only the supply of such credit, but what is perhaps even more important to regulate the demand for it, will put us in a stronger position in this respect than ever before, particularly as the "loans for the account of others," which were so serious a problem in 1927-29, are now forbidden by law. But it seems inevitable that with excess reserves of such magnitude, undue credit expansion will sooner or later get under

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way through one channel or another unless appropriately controlled. This is not the place to examine in any detail the criteria by which undue credit and business expansion can be recognized. That is a most difficult and a highly controversial question. It will probably not become a pressing question until the heavy goods industries have recovered and the general index of production has returned to normal. At the present time the Board index stands at 89 as compared with 58 at the bottom of the depression in July, 1932, and with 119 in 1929. Building contracts are still 71% below estimated normal, and steel ingot production 28% below.

The more pressing question is that of the nature of the control program. We have the following major instruments of control: power to alter reserve requirements, discount rates, open market operations, and powers of "direct control" against stock market use of credit. In what order should these powers be used if and when control becomes essential? This is a question of very great magnitude which cannot be discussed fully within the scope of the present memorandum, which is addressed mainly to the question whether there is any immediate ground for a change in our credit policy.

But there is a direct connection between this question of the order in which the instruments of control should be used and the question of our attitude toward the continued growth of excess reserves. During the past two years it has been repeatedly pointed out that excess reserves have gone on increasing, very rapidly and very substantially, not as a result of open market operations or of any deliberate policy of the Federal Reserve System, but in response to recurring inflows of gold following upon devaluation of the dollar. At the time of the passage of the Gold Reserve Act in January, 1934, excess reserves, mainly as the result of open market operations, were \$800,000,000; they are now \$2,900,000,000. Granting



that it has been the Federal Reserve policy ever since February 1932 to maintain pressure for credit expansion through excess reserves, no one supposes that the System would have deliberately created any such volume of reserves as now exists; and the question has been repeatedly raised whether, granting the desirability of large excess reserves, it is desirable to permit them to accumulate indefinitely. It may well be asked whether, at some point, we should not intervene, not to prevent credit expansion but merely to prevent further accumulation of superfluous reserves which will only add to the difficulties of credit control when the time for it arrives?

This question, which is surely very pertinent, reveals the extraordinary nature of our current situation which is without precedent in central banking history. If a central bank creates reserves by open market operations, it can contract them by the same method. But today excess reserves owe their origin, in the main, not to open market operations but to the modification of our monetary standard. So long as gold continues to flow in on such a scale as this year and last, we could not hope to eliminate excess reserves by open market operations alone. As a practical matter, the most that we could do through the sale of government securities would be to reduce them in part and thus psychologically to check their use in credit expansion. It is partly because we fear that the sale of securities at this time would have such a result now when expansion is still necessary for business recovery that we have continued in our present policy. If, on the other hand, a reversal of our open market position did not prevent credit expansion now, our sales would only weaken our power to control such expansion later.

In these circumstances it seems not unlikely that the first step in control may have to be the raising of reserve requirements. Must we not recognize that the modification of our monetary standard in January, 1934, carried with it as one



of the necessary conditions of its continued operation the necessity of some fundamental readjustment of our whole system of reserve requirements?

But whatever program of control may be chosen, it seems certain that coordination of Federal Reserve policy and the Administration's fiscal policy is the
first and the fundamental prerequisite to its success. Upon the achievement of
this coordination depends fundamentally the timing of any control program, for
whether we employed open market operations or an alteration of reserve requirements
as our first measure of control, we would be facing the definite risk of a stoppage
in the government bond market, with all of the undesirable consequences which might
follow therefrom, unless our policy were closely timed and coordinated with a
Treasury program of budgetary economy and control.

0etober 21, 1985.

Mr. George L. Harrison, Chairman, Federal Open Market Committee, Federal Reserve Bank of New York, New York, New York.

Dear Mr. Harrison:

The Board has asked me to bring to your attention the provision of the Banking Act of 1955 which amended the last paragraph of section 10 of the Federal Reserve Act to read as follows:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

Upon anakysis it appears that this amendment provides for three records, as follows:

(1) A complete record of the actions taken by the Federal Open Market Committee as now constituted until March 1, 1956, upon all questions of policy relating to open market operations. This record is required to be kept by the Board as to all actions taken by the committee after the enactment of the Banking act of 1955, notwithstanding the fact that the members of the Board are not members of the committee. However, the law provides the meeting of the committee, in the discretion of the Board, may be attended by the members of the Board.

Mr. George L. Harrison, -- 2.

- (2) A complete record of the actions taken by the Federal Open Market Committee which is to come into existence on March 1, 1986, under the terms of the Banking Act of 1985, upon all questions of policy relating to open market operations. This record is required to be kept by the Board of all actions on questions of policy taken by the committee, notwithstanding the fact that the actions taken will be those of the committee as such and not of the Board as such.
- (5) A complete record of the actions taken by the Board of Governors of the Federal Reserve System upon all questions of policy relating to open market operations and with respect to all other questions of policy determined by the Board. This record is required to be kept of all actions taken by the Board on questions of policy determined since the enactment of the Banking Act of 1935.

The Board has under consideration the procedure which should be followed in order to carry out the provisions of the statute, and, in view of the meeting of the Federal Open Market Committee on October 22, it is suggested that the committee also give consideration to the procedure in regard to the actions taken by it upon questions of policy relating to open market operations.

It may be noted in this connection that the amendment requires that the Board of Governors keep a complete record of the actions taken by the Federal Open Market Committee upon all questions of policy relating to open market operations; that the Board shall record therein (a) the votes taken in connection with the determination of open market policies and (b) the reasons underlying the action of the committee in each instance; and that the Board shall include in its annual report a copy of the record required to be kept.



Mr. George L. Harrison, -5.

I may add also that, pending further consideration of the matter, the Board is disposed to accept for the purpose of the required record a report from the Federal Open Market Committee setting forth such actions as may be taken by it upon questions of policy relating to open market operations, the votes taken in connection therewith and the reasons underlying each such action, and that when the committee has discussed the matter the Board will be pleased to be advised as to the views of the committee concerning the procedure which should be followed.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill, Secretary,

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Form No. 131

Office Correspondence

FEDERAL RESERVE EOARD

Date October 19, 1935

REC'D IN FILES SECTION Subject:

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Mr. Morrill

Mr. Eccles

For your use in calling the matter to the attention of Governor Marrison, the new provision of law requiring the Board of Governors to keep and publish records of actions taken by the Open Market Committee is contained in the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935, which reads as follows:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

This provision of law became effective on August 23, 1935, the date of its approval by the President, and placed upon the Board the responsibility of keeping three records:

- (1) A complete record of the actions taken by the Board of Governors of the Federal Reserve System upon all questions of policy relating to open market operations and with respect to all other questions of policy determined by the Board. This record is required as to all actions taken by the Board on questions of policy determined since the enactment of the Banking Act of 1935.
- (2) A complete record of the actions taken by the Federal Open Market Committee as constituted until March 1, 1936, upon all questions of policy relating to open market operations. This record is required as to all actions taken by the committee after the enactment of the Banking Act of 1935, notwithstanding the fact that the members of the Board are not members of the committee.
- (3) A complete record of the actions taken by the Federal Open Market Committee which is to come into existence on March 1, 1936, under the terms of the Banking Act of 1935, upon all questions of policy relating to open market operations. This record is required as to all actions on questions of policy taken by the committee, notwithstanding the fact that the actions taken will be those of the Committee as such and not of the Board as such.

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Form No. 131

To

Office Correspondence

Mr. Morrill

Mr. Goldenweiser

FEDERAL RESERVE BOARD

Subject:

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I am sending you herewith eight copies of a memorandum on the 10-18-35

business and credit conditions prepared for the use of the Board and the Open Market Committee next week. There are a few minor revisions that will be made later in the day, but I wanted to get these copies to the Board members so that they could take them

with them over the weekend if they chose.

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October 18, 1935 R. & S. Cr. 10

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BUSINESS AND CREDIT CONDITIONS

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General summary

Sustained activity of business at a level near the high point reached at the beginning of the year is the outstanding fact in the current economic situation.

The increase over last year has been chiefly in industries producing durable goods, the low level of activity of which has been the principal characteristic of the depression. There has been this year, for the first time since the decline which in this industry began early in 1928, a marked and sustained increase of residential building—though the volume of construction is still relatively small.

Greater activity in industry has been accompanied by an advance in the income both of industrial workers and of farmers, and the distribution of commodities to consumers also increased. There has been no evidence of accumulation of stocks of commodities. Wholesale prices of farm products and foods have continued to advance, but at a slower rate than in 1933 and 1934. Prices of most industrial products have shown little change in the past two years.

Notwithstanding the improvement in business, there is still a large volume of unemployment and the burden of relief continues to be heavy.

Continued ease in the money market and the accumulation of a vast amount of idle funds in the hands of investors has been reflected in a revival in the capital market. Security flotations have been in larger volume than in any year since 1931; for the most part they have been refunding issues reducing

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the debt service, particularly of corporations, but there has also been an increase in the amount of new money raised to be used in part in liquidation of bank debt and in part for productive purposes.

Industrial profits have increased, and there has been a sustained advance in security prices—representing the effect of cash buying by investors.

Bank loans to brokers have not increased and security loans to other borrowers have declined.

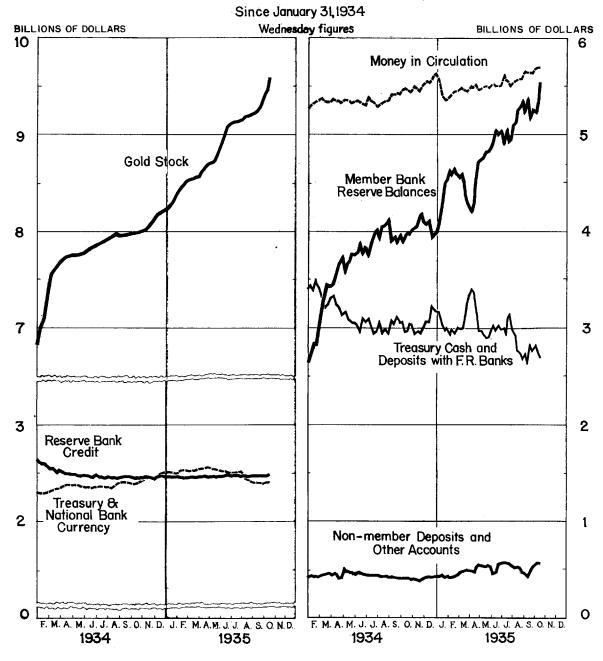
Expansion of total bank loans and investments has been continuous during the year and has reflected for the most part additional purchases by banks of United States Government obligations and of securities guaranteed by the Government. Bank deposits have grown as the result chiefly of gold imports and disbursements by the Government, and demand deposits of member banks are at a higher level than at any previous time. The growth in deposits has been large enough to meet the increased demands of business and the turnover of deposits has shown little change.

In recent months disturbed conditions abroad and expectations of a rise in security prices have resulted in a large flow of capital to this country and consequent imports of gold. These imports have been the chief factor in carrying member bank reserves to a new high level, as shown in the accompanying chart. Notwithstanding a considerable increase in legal reserve requirements consequent upon the increase in deposits and a more than seasonal growth in the demand for currency arising from the greater volume of trade, excess reserves of member banks increased further and at \$2,900,000,000 are at the highest point on record.

Immediate prospects in the business situation taken as a whole appear to be favorable.

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MEMBER BANK RESERVE FUNDS AND FACTORS OF CHANGE IN THEIR VOLUME





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Business activity

During the first three quarters of 1935 industrial activity and employment have been maintained at a level higher than in any of the four preceding years and about half way between the lowest point of the depression and the 1929 level. The increase in production over last year, amounting to about 10 percent, has been largely in durable manufactures, particularly automobiles, machinery, and steel, while output of non-durable manufactures in the aggregate has shown a relatively small increase.

Since the beginning of the year, industrial activity has shown less change than in the corresponding period of any other recent year. In September the Board's seasonally adjusted index was at 89 percent of the 1923-1925 average as compared with a high point of 91 percent in January and a low point of 85 percent in May. Industrial prices also have fluctuated within a narrow range and there has been no general accumulation of stocks of industrial products such as occurred in the rapid speculative advance in prices and production during the summer of 1933.

The volume of residential building, which had remained unchanged at exceptionally low levels in 1932, 1933, and 1934, has shown an increase this year, reflecting improvement both in the real estate situation and in the mortgage market. The current level is approximately twice that of last year and one-fifth that of the peak years 1925 to 1928. Commercial and factory building has continued at a low level. There has been less public construction in recent months than a year ago; currently, however, a considerable amount of new public work is being undertaken.

Incomes in industrial communities have increased somewhat, as compared with a year ago, reflecting primarily increased industrial activity. Relief

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expenditures by the government have continued at a high level. Factory payrolls for the first three quarters were 10 percent larger, and there was also an increase in wage payments on the railroads, where employment declined somewhat but wage rates advanced.

Industrial profits have also been larger than in the corresponding period of 1934. The largest increases have been in the automobile, building materials, machinery, and electrical equipment industries, while the profits of public utilities, which had shown a relatively small decline during the depression, have decreased somewhat further this year.

Agricultural income has been above that of a year ago by about 5 percent, chiefly as a consequence of higher prices for livestock and livestock products. Marketings of livestock have been sharply reduced while crop production has shown a considerable increase over last year, when drought conditions prevailed.

The volume of domestic trade has been somewhat larger than a year ago, particularly in rural areas. Purchases of household equipment and automobiles have shown a substantial growth, and the dollar volume of sales by department stores has been larger, with the most marked increases over last year reported in recent months.

Although economic activity has increased substantially from the low levels of the depression, the current level is considerably below that in 1929 and the volume of unemployment continues high.

The accompanying table shows a comparison of business conditions in September and the first three quarters of 1935 with conditions in the years 1929, 1932, 1933 and 1934.

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BUSINESS CONDITIONS

Index numbers, 1923-1925 = 100

	Industrial production	Construc- tion con- tracts awarded (value)	Factory employ- ment	Factory pay- rolls	Depart- ment store sales	Whole-sale prices	Retail food prices 2/
1929	119	117	105	109	111	95	157
1932 1933 1934 1935	64 76 79	28 25 3 2	64 69 79	46 49 62	69 67 75	65 66 75	102 100 111
JanSept.3	<u>s</u> / 87	31	gl	68	<u>7</u> 8	80	122
Aug.3/ Sept.3/	87 p89	38 p41	82 p82	70 p71	79 p82	81 81	122 124

p--Preliminary.

1/ 1926 = 100; index of Bureau of Labor Statistics.

2/ 1913 = 100; index of Bureau of Labor Statistics.

3/ Indexes for periods less than a year, except those for wholesale and retail prices, adjusted for seasonal variation.

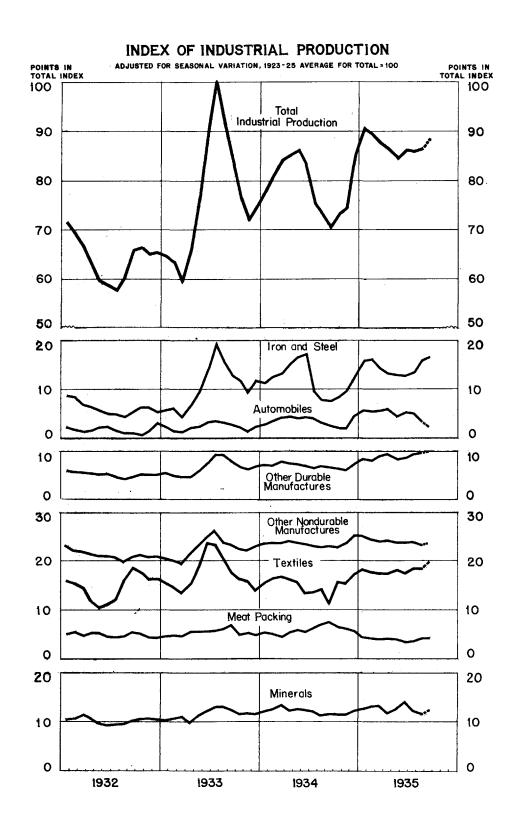
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Industrial production

Since the middle of 1932 there have been four periods of increased industrial output, each quite different from the others. Some of the differences are evident on the accompanying chart, which shows the Board's seasonally adjusted index of industrial production and the production of iron and steel, automobiles, other durable manufactures, textiles, meatpacking, other non-durable manufactures, and minerals, all expressed in terms of points in the total index, so that it is possible to see just how much of any movement in the total index is accounted for directly by changes in activity in any of these industries. The indirect effects, such as an increase in the output of materials owing to an increase in output of finished goods, are not shown separately.

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The first of the four advances was in the summer of 1932. It was small in amount and reflected largely an increase in textile output from an unusually low level. By the following March, at the time of the banking crisis, production had declined to about the same level as in the middle of 1932.

The second advance, stimulated by the reopening of banks, the low level of stocks of certain commodities, and the prospect of higher costs and higher prices in many lines, was widespread and exceptionally rapid. Output of semi-finished products showed the most rapid expansion in this period, and the index, which is based in large part on output of such products, advanced 41 points in four months, from 59 percent of the 1923-1925 average in March to 100 percent in July. This advance, partly of a speculative character, was not sustained, however, and beginning in August there was a general, rapid decline in output, which by November had brought the index down to 72 percent.

The third advance in the index, to a high of 86 percent in May 1934, reflected primarily increased output of steel, part of which was purchased for stock in anticipation of price advances announced for the third quarter. Increased automobile production was also a factor in this advance. After May the index declined rapidly, reflecting chiefly an abrupt decline in steel production which continued at an exceptionally low level for several months. There was also a decline in activity at textile mills while meatpacking showed a marked increase, largely as a consequence of the drought. The low point of this downward movement in the index of industrial production was reached in September 1934, partly owing to the textile strike in that month.

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The fourth advance, from this low point of 71 percent in September 1934 to 91 percent in January 1935, was general for the industries shown on the chart, except that in the meatpacking industry activity showed a rapid decline during this period. The level of industrial output reached in January was somewhat higher than that reached in the spring of 1934 and has been largely maintained. This is the first advance that has not been followed in the immediately succeeding months by a sharp decline. The lowest index reported so far this year is 85 percent for May. The most recent index, for September, is 89 percent, and there is no indication of a decline in the immediate future.

Steel production has been maintained generally at a level of between 40 and 50 percent of capacity and currently is at 52 percent, reflecting sustained demand from many sources, especially the automobile and machinery and miscellaneous industries; orders from the railroad and building industries have continued to be in limited volume. Automobile production, which had increased from a low level of 1,400,000 cars for the whole year of 1932 to 2,800,000 for 1934, has totaled 2,900,000 during the first nine months of 1935. Output was sharply reduced in September as preparation was made for new models which are now being produced in increasing volume.

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Lumber output has increased considerably, accompanying an advance in residential building and increased activity in the furniture industry. Textile production as a whole has been unusually stable at a level somewhat higher than was reached at any time during 1934. This higher level, however, has been due chiefly to unusually large production by the wool industry, partly offset in the total by a relatively small volume of output in the cotton textile industry.

At mines output has fluctuated more from month to month this year than in other recent years on account of uncertainties concerning a possible coal strike, which finally occurred in September and was settled after a few says.

Employment and payrolls

Total volume of employment is slightly higher than a year ago and substantially above the lowest level of the depression. It is, however, considerably below the 1929 level and, with a growing number of persons of working age, the volume of unemployment continues at an unusually high level.

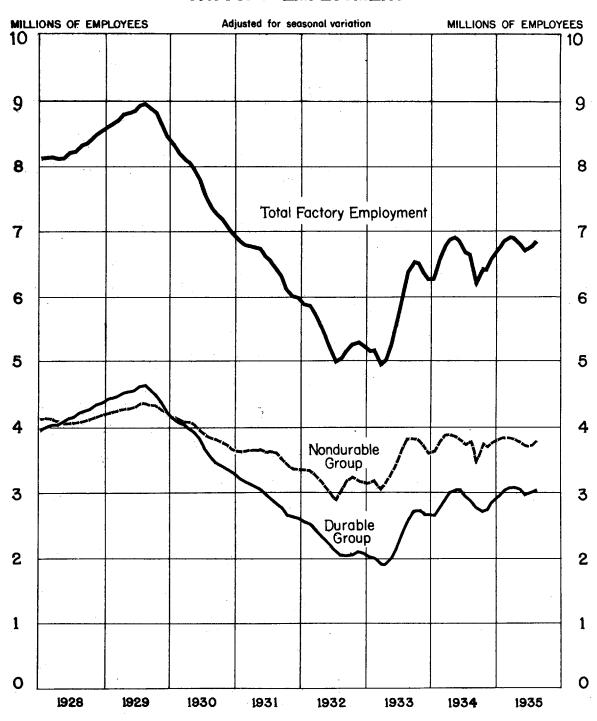
The course of factory employment since 1928 is shown on the accompanying chart with separate lines for employment in the industries producing
durable manufactures, such as iron and steel, automobiles, machinery, lumber,
and furniture, and for employment in the industries producing non-durable
manufactures, such as foods, textiles, and leather products. The figures are
adjusted for seasonal variation.

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FACTORY EMPLOYMENT



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The total number of wage-earners employed at factories in August was about 6,800,000 as compared with 6,600,000 a year ago, a low of 4,900,000 in the spring of 1933, and a high of 9,000,000 in the middle of 1929. Preliminary figures indicate that in September the number employed showed a seasonal increase.

In 1929, as in most of the earlier post-war years, the number employed in the durable group was slightly larger than in other manufacturing industries. From the high in 1929 to the low point of the depression, the decline in the non-durable group was about 1,500,000 persons, while in the durable group it was about 2,700,000 persons. The subsequent increase reported for the durable group has been larger than for the non-durable group, amounting to about 1,100,000 persons as compared with 900,000. This year employment in both groups has been maintained with little change, with the durable group generally higher than a year ago. Detailed comparisons for leading groups of industries are shown in the following table.

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FACTORY EMPLOYMENT

January-August 1935

	Average number	Change from year ago		
	of employees	Number of employees	Percent	
Total	6,774,700	+111,100	+1.7	
Durable group	3,024,000	+119,300	+4.1	
Automobiles and parts Machinery Non-ferrous metals and products Lumber and products Iron and steel and products Transportation equipment, other than automobiles Stone, clay, and glass products Railroad repair shops	445,100 738,100 224,100 465,900 613,400 96,400 185,100 255,900	+35,900 +57,500 +15,500 +18,800 +8,600 +1,400 -1,700 -16,700	+8.8 +8.4 +7.4 +4.2 +1.4 +1.4 -0.9 -6.1	
Non-durable group 1/ Textile wearing apparel Paper and printing Chemical group, except petroleum refining Textile fabrics Leather and products Petroleum refining Food products Rubber products Tobacco products	3,750,700 446,700 510,900 292,100 1,023,400 287,600 70,900 653,900 108,600 79,300	- \$,200 +15,200 +11,600 +2,700 +2,900 -2,700 -800 -29,700 -6,000 -6,500	+3.5 +2.3 +0.9 +0.3 +0.9 -1.1 -4.3 -5.3 -7.5	

^{1/} Includes a few miscellaneous industries not shown separately.



Employment at mines has fluctuated considerably in recent months, reflecting the threat of a strike in the bituminous coal industry; the average for the year to date, however, is about the same as last year. On railroads employment has shown a seasonal increase since the beginning of the year, while in public utilities little change has been reported.

Payrolls at factories for the period from January to September this year have been about 10 percent larger than a year ago and on the railroads payrolls have also been larger, partly on account of higher wage rates.

Payrolls at mines and public utilities have shown little change. The figures for these four groups of industries are given below; for other groups, such as trade, construction, professional and government service, no satisfactory data are available.

AVERAGE WEEKLY PAYROLLS IN FOUR GROUPS OF INDUSTRIES

(In millions of dollars per week)

JanSept. 1934	JanSept. 1935	Change
183.9	199.0	+15.1
126.5 58.3 68.2	138.8 66.4 72.4	+12.3 +8.1 +4.2
12.7	12.4	3
28.0	30.0	+2.0
22.9	23,8	+.9
	1934 183.9 126.5 58.3 68.2 12.7 28.0	1934 1935 183.9 199.0 126.5 138.8 58.3 66.4 68.2 72.4 12.7 12.4 28.0 30.0

^{*}Steam railroad repair shops are included in factories and also in railroads, but the duplication has been eliminated in this total.



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Domestic trade

The total amount of domestic trade has been larger during the first three quarters of 1935 than it was a year ago. Sales of general merchandise in rural areas, as reported to the Department of Commerce by mail-order houses and chain stores, have been substantially larger than in any other year since 1930. Department store sales, as measured by the Board's seasonally adjusted index, have shown an increase during this year and the average for the third quarter was 80 percent of the 1923-1925 average, as compared with 75 percent in the third quarter of 1934. Sales of automobiles showed a considerable advance in the early part of the year and were well maintained until September when they declined prior to the introduction of new models. There has been an increase over a year ago in the sales of chain grocery stores, owing in part to higher food prices, while in chain variety stores sales have been in about the same amount as last year.

Foreign trade

In the first 8 months of this year the value of exports was about the same as in the corresponding period last year while the value of imports was one-fifth larger. The excess of exports amounted to \$25,000,000 as compared with \$259,000,000 a year ago.

Reflecting chiefly the effects of last summer's drought, exports of meats, lard, and grains showed a marked decline from last year and imports of live-stock products, grains, and feeds increased. Exports of cotton showed a marked decrease and the quantity of tobacco exported was also considerably smaller. Exports of automobiles, machinery, and crude petroleum, however, have been in larger volume than last year.

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The increase in imports this year has been general, with marked increases over a year ago reported for sugar and tin, as well as for meats and grains. Imports of crude rubber have been larger in value but slightly smaller in volume.

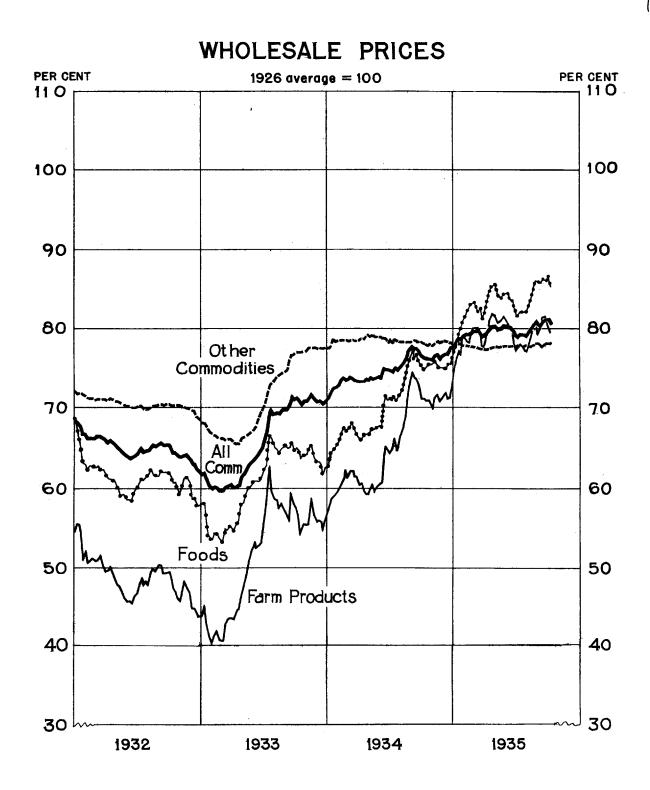
Prices

Since the beginning of the year the general level of wholesale prices has shown less change than in the corresponding period of any other year since 1929. The course of the index has been gradually upward, with an irregular advance from 78 percent of the 1926 average in the early part of January to 81 percent currently. As is indicated on the accompanying chart, movements in the index have been largely dominated by changes in the prices of farm products and foods, while prices of other commodities as a group have shown little change from the level reached in the autumn of 1933 and maintained throughout 1934.

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The principal changes in prices of farm products and foods have been marked increases in the prices of livestock and livestock products, a rapid decline in the prices of grains other than wheat, and a smaller decrease in the price of cotton. Wheat prices declined in the early part of the year but from the end of June to the first week of October they advanced rapidly, and although they have declined somewhat since then, they are now higher than at the beginning of the year. Prices of sugar have also shown a considerable increase.

While other commodities as a group have shown little change, there have been marked movements in the prices of several individual commodities. Since last spring prices of hides and leather, silk, textile products, and scrap steel have advanced, and since summer nonferrous metals have also increased. Prices of tires and tubes and crude petroleum have shown declines during the year.

Retail prices of foods advanced considerably during the early months of the year, reflecting chiefly a sharp rise in meat prices. Since April there has been little net change in food prices and at the present time they are approximately 6 percent higher than they were a year ago.

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Profits and dividends

Industrial profits, as indicated by reports of large corporations, were somewhat larger in both the first and second quarters of 1935 than in the corresponding periods of last year. Automobiles, building materials, machinery, and electrical equipment were among the industries showing the most marked increases. Results for the third quarter are not yet available, but known developments indicate that profits were above those of the previous year. Since 1932, when industrial corporations were generally operating at a loss, profits have recovered substantially, but their current volume is still only about one-third of that attained in 1929.

During the first half of 1935 profits reported by public utility companies were somewhat below those of the previous year. Since the recession in this field, however, was much less than for industry generally, profits of utilities are almost two-thirds as high as the best levels reached a few years ago. Railroad companies as a group failed to earn their fixed charges during the first half of 1935, as in other recent years.

Dividend declarations for a large group of corporations during the first nine menths of the year as sampiled by the New York Times aggregated \$2,000,000,000, an increase of about \$100,000,000 over the previous year. Several of the largest banks in New York City have recently reduced dividends because of low average yields on available funds.

Member bank deposits

Deposits at member banks have continued to show a rapid growth during 1935, reflecting principally the influence of gold imports and of disbursements

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by the Government of funds raised through the sale of obligations to the banks. The following table shows for recent years the various types of deposits at all member banks. On June 29, 1935, adjusted demand deposits, which exclude United States Government deposits, interbank balances, and reported "float," amounted to \$17,530,000,000, the largest amount ever reported.

Deposits at nonmember banks, however, and at all banks continued below their previous peak. Time deposits at member banks, excluding those of banks and the Postal Savings System, increased in the first half of this year and at \$9,890,000,000 were \$1,700,000,000 larger than two years earlier, but considerably smaller than in the period from 1928 to 1931.

The recent decline in Postal Savings deposits at banks reflects the direct investment of funds by the Postal Savings System; the amount of deposits held by the public in Postal Savings accounts has shown little change since 1933. The continuous growth in interbank balances, which are now the largest on record, reflects an increase in idle funds held by banks.

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DEPOSITS AT ALL MEMBER BANKS ON SELECTED CALL DATES

(In millions of dollars)

	Adjusted demand*	Time (excluding Postal Savings)	United States Govern- ment	Postal Savings	Inter-bank
1929 June 29	16,324	13,210	348	115	3,766
1933 June 30	12,089	8,192	g0 6	788	3,340
1934 June 30	14,261	9,226	1,658	5 ⁸ 5	4,397
Dec. 31	15,686	9,456	1 ,6 36	452	4,905
1935 June 29	17,530	9,888	779	307	5 , 442

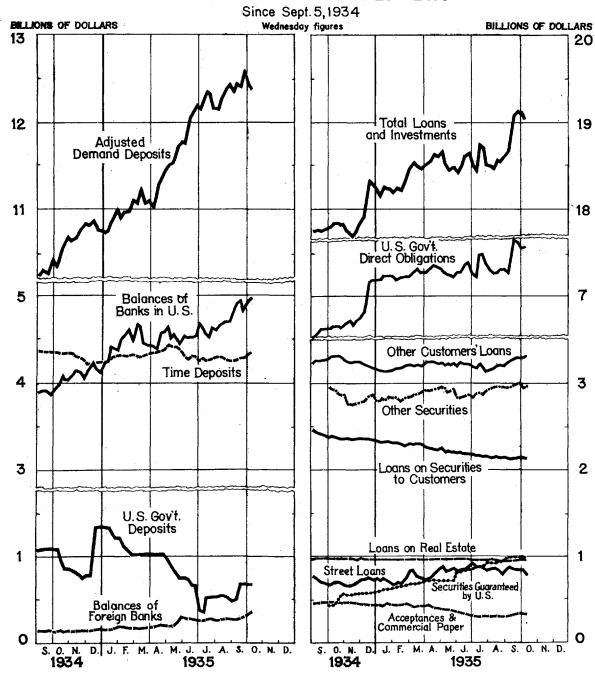
^{*} Demand deposits, other than those of banks and the United States Government, plus certified and officers' checks, cash letters of credit and travelers' checks, and due to Federal Reserve banks (deferred credits), minus cash items reported as on hand and in process of collection.

That the growth of deposits has continued since June, although at a somewhat slower rate than in the second quarter of this year, is indicated by figures for weekly reporting member banks in 91 leading cities, shown on the chart. Adjusted demand deposits at these banks increased by over \$200,000,000 between June 26 and October 9, while time deposits showed a small increase, notwithstanding a decrease in Postal Savings deposits, which are included in the figures shown. Balances of domestic banks continued to increase, and there has also been some growth in recent weeks in deposits of foreign banks, reflecting the movement of short-term funds from abroad.

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MEMBER BANKS IN LEADING CITIES DEPOSITS AND LOANS AND INVESTMENTS



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Bank debits and turnover of deposits

Reflecting an increased volume of financial and other business transactions, the amount of debits to depositors' accounts at banks has been larger in 1935 than in any of the three previous years. At banks in 140 cities outside of New York debits in the first three quarters of this year were 13 percent larger than in the same period of last year. In New York City, where debits are to a considerable extent affected by speculative stock-market activity, the increase amounted to 6 percent.

The increase in debits for the country as a whole has been somewhat slower than the growth of deposits, and therfore the rate of deposit turn-over has decreased slightly.

Member bank loans and investments

Loans and investments of member banks have increased this year by a somewhat smaller amount than in the same period last year. This difference has reflected in large part the smaller volume of borrowing by the United States Government and its agencies this year as compared with last. Another factor has been the retirement in July and August of bonds bearing the circulation privilege. Holdings of direct obligations of the United States Government by all member banks showed little change in the first half of the year, while those of weekly reporting member banks in leading cities, as indicated on the chart previously shown, have increased by about \$200,000,000 since June. Additional securities purchased have exceeded in amount the circulation bonds retired.

Obligations fully guaranteed by the United States Government increased by \$570,000,000 at all member banks in the first half of the year and by \$140,000,000 at weekly reporting banks subsequently. Holdings of other

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Total loans of member banks declined in the first half of the year, but since the end of July loans of weekly reporting banks have increased somewhat. Loans on securities to customers continued to decline, while other customers' loans showed seasonal increases in the spring and again in recent weeks. Loans to brokers and dealers in securities, which are discussed more fully in a subsequent section, fluctuated within a relatively small range, reflecting principally operations of dealers in Government securities.

Money rates and bond yields

Short-term money rates have continued at low levels during 1935, with rates on open-market commercial paper at 3/4 of one percent since January, those on call and time loans on the New York Stock Exchange at 1/4 of one percent since April, and rates on acceptances at 1/8 of one percent throughout the year. Yields on 9-month Treasury bills, which declined in the first half year to .05 of one percent in July, have recently been between .20 and .25 of one percent.

Rates charged on prime loans to customers by banks have shown a further slow decline during the year. Rates at New York City banks now average less than 2 3/4 percent; those in other northern and eastern cities, 3 3/4 percent; and those in southern and western cities, about 4 1/2 percent.

Yields on outstanding Treasury bonds continued to decline during the first half of the year but rose somewhat in August and September as a consequence of declines in prices. Yields on high-grade corporate bonds have been relatively stable at a low level since early in the year.

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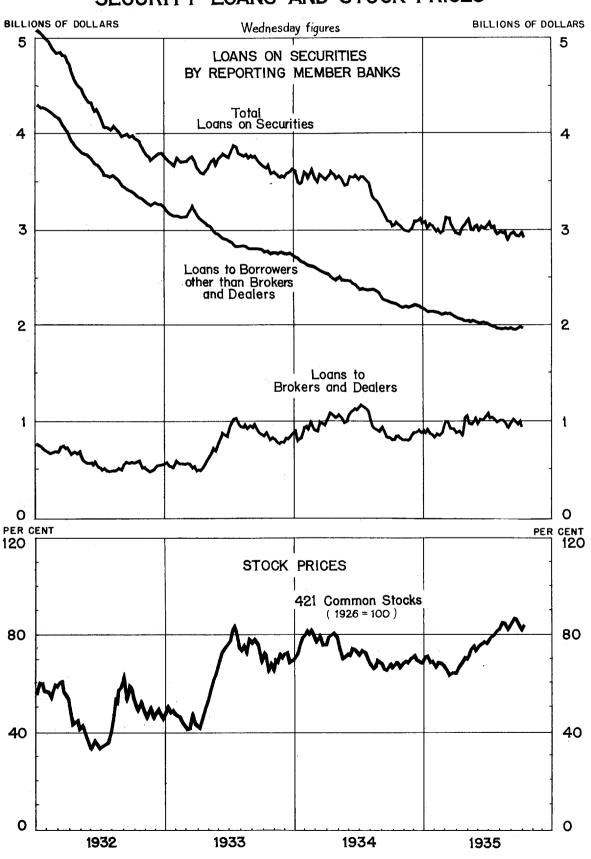
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Security prices and security loans

There has been a substantial increase in security prices and in stock market activity during recent months, reflecting for the most part cash purchases by investors. The following chart brings out the fact that this rise in prices of securities has not been accompanied by an increase in security loans.

SECURITY LOANS AND STOCK PRICES



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The average increase in stock prices since last March has exceeded 35 percent, according to the most comprehensive available index, while the security loans of the weekly reporting member banks have shown little change. A small increase in their loans to brokers and dealers in securities has been offset by a decrease in their security loans to other customers.

It is an unprecedented development for a rise of 35 percent in stock prices in a short period of time not to be accompanied by an increase in the amount of bank credit used for carrying securities. This unusual condition is due in part to the abundance of funds in the hands of investors and in part to the effects of the Board's Regulation T, which limits withdrawals of cash from margin accounts for the purpose of realizing profits from a rise in stock prices, and thereby reduces the need of borrowing by brokers.

A somewhat paradoxical situation arises out of the nature of the formula for determining margin requirements stated (but not prescribed) in the law and adopted by the Board. The formula provides that a loan on a security must not be greater than whichever is the higher of:

- (1) 55 per centum of the current market price of the security, or
- (2) 100 per centum of the lowest market price of the security during the preceding thirty-six calendar months, but not more than 75 per centum of the current market price.

The theory on which this formula was based was to provide for a constant increase of restraining influences as the prices of stocks advanced further and further above their lows. The way the formula works out in practice is not entirely consistent with this theory. Up to the point

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when the price of a stock rises to 133 percent of its three-year low it is permissible to borrow as much as 75 percent of its market price and an in→ crease in price can result in pyramiding of profits. From that point until the price reaches 182 percent of its low, the amount that can be borrowed remains constant at 100 percent of the low price. During that period the percentage of the margin to the permissible loan increases, but the actual amount that can be borrowed remains unchanged and, therefore, no pyramiding is possible. When the price of the security gets above 182 percent of its low, the formula results in a constant 45 percent margin requirement. This is the highest proportionate margin provided for in the formula, but since every increase of \$1.00 in the price of the stock from that point permits an increase of 55 cents in the amount that can be borrowed on it, it becomes possible once more to pyramid profits arising from price advances. In this way the formula, though providing a higher margin requirement for stocks that have advanced rapidly, results in removal of the anti-pyramiding restraint when the stocks have advanced beyond 182 percent of their lows.

At the present time stocks in which two-thirds of the trading is done, including many market leaders, have emerged from the anti-pyramiding zone and, though subject to the 45 percent margin requirement, will afford opportunities for pyramiding profits in the event of further advances in prices.

The course of the market in the immediate future requires close observation to determine whether and when a change in the formula or in the level of required margins shall become desirable.

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Capital issues

The supply of funds seeking investment and the low level of money rates brought about a revival of the capital markets beginning early in 1935. New issues, particularly for refunding purposes, were offered in increased volume in March and have continued to come into the market in a volume substantially above that of recent years. Total issues increased from \$140,-000,000 in January and \$100,000,000 in February to \$290,000,000 in March. Since then they have averaged about \$500,000,000 a month. This compares with average issues of \$140,000,000 a month during the years 1932-1934 and of \$740,000,000 a month during the period 1925-1930.

Capital issues for the period January 1--September 30, 1935, totaled \$3,530,000,000, including \$2,560,000,000 for refunding existing securities and \$970,000,000 for raising new capital to be used in part in liquidation of bank loans and in part to improve or expand plant and equipment.

The increased flow of new securities into the capital market during 1935 has been chiefly for the purpose of reducing interest charges on existing debt. Nearly three-fourths of the securities were offered to refund outstanding securities into issues bearing lower coupon rates. In fact the total issued for refunding purposes during this nine-month period exceeds the amount of such issues during any post-war year. Refunding issues of the farm

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loan and Government credit agencies totaled \$865,000,000, inof
cluding efferings to redeem \$400,000,000|Federal land bank bonds
and \$325,000,000 of Home Owners! Loan Corporation bonds guaranteed
by the United States as to interest. Public utility companies
were the next most important group participating in refunding operations. They issued \$760,000,000 for refunding purposes, including twelve issues varying in amount from \$30,000,000 to \$70,000,000 each and aggregating \$530,000,000.

Corporate issues have become a more important factor in the capital market in 1935 than in any year since 1931. Total issues by corporations in the period January 1--September 30 were \$1,600,-000,000, including \$1,370,000,000 for refunding purposes and \$230,-000,000 for new capital. In addition to the refunding issues offered by public utility companies, which have already been mentioned, \$120,000,000 were offered for this purpose by railroads, \$340,000,000 by various manufacturing companies, and \$110,000,000 by companies producing and refining oil. Corporate issues to raise new capital averaged \$35,000,000 a month during the period April 1--September 30, which is in excess of average monthly issues for such purposes in any year since 1931. Stocks, preferred and common, have been issued to only a small degree. Nearly three-fourths of the issues for new capital have been in the form of long-term bonds and notes.

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Treasury finance

During the period July 1 to September 30, 1935, Treasury expenditures, excluding debt retirement, were \$1,700,000,000, receipts totaled \$1,000,000,000, and the public debt increased by \$700,000,000.

On the basis of revised budget estimates, included in a recent statement by the President, the deficit (excluding debt retirement) for the fiscal year ending June 30, 1936, is expected to be about \$2,700,000,000, as compared with a deficit of \$3,000,000,-000 in the fiscal year 1935. Whereas during the fiscal year 1935 the Treasury met a large portion of its deficit by drawing on its previously accumulated general fund balance and the public debt showed an increase of only \$1,650,000,000, it is anticipated that during the current fiscal year the deficit will be met principally by borrowing and the public debt will increase by \$2,600,000,000.

During the current calendar year the Treasury's refunding program has included about \$5,700,000,000 of its bonded debt called for redemption. The retired issues include \$1,870,000,000 of 4th Liberty Loan bonds on April 15, the remaining \$1,250,000,000 of 4th Liberty bonds on October 15, \$1,930,000,000 of 1st Liberty bonds on June 15, \$600,000,000 of Consols on July 1 and \$75,000,000 of Panama Canal bonds on August 1. About \$4,200,000,000 of this bonded debt was retired by exchange offerings; the new issues included \$2,310,000,-000 of 2 7/8 percent 20-25 year bonds, \$570,000,000 of 2 3/4 percent 10-12 year bonds, \$860,000,000 of 1 5/8 percent 5-year Treasury notes, and \$430,000,000 of 1 1/2 percent 3 1/2 year Treasury notes.

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With the redemption of the remaining 4th Liberties on October 15 the Treasury completed the refunding program which was begun in October 1933 with the first call of the 4th Liberties. Under this program about \$8,875,000,000 of bonds have been retired, including all remaining war bonds and practically all pre-war bonds. Redemption of about \$6,900,000,000 of these bonds was made through exchange offerings of notes and bonds carrying lower interest rates and with varying periods to maturity and about \$1,900,000,000 have been redeemed in cash or are subject to cash redemption. The effect of the exchanges was to reduce the interest charges on that part of the redeemed debt by about \$100,000,000 per annum.

Form No. 131

Office Corresponder. 6

FEDERAL RESERVE

Date 6 ober 17, 1935.

To Chairman Eccles	Subject:	333.3-	
From WMr. Clayton		REC'D IN FILES SECTION	1
male of		APR 1 1 1938 16-852	
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Attached hereto is a copy of a letter of October 10th, written by Mr. Coolidge and addressed to the Governor of each of the twelve Federal Reserve Banks.

In discussing this matter with Mr. Batchelder he pointed out that heretofore banks were not at liberty to prepay war loan accounts inasmuch as they agreed in the depositary agreement at the time of the opening of such war loan account that balances should be drawn down only upon demand of the Treasury. Exceptions have been granted rather liberally when a bank made special application for purposes of readjusting its investment portfolio, but the Treasury always reserved the right to retain the deposits in the banks so long as it desired. It was felt that the Banking Act of 1935 fixing the F. D. I. C. assessment and also requiring reserves to be maintained against Government deposits changed the situation somewhat, as it placed upon the depositary banks burdens with reference to these war loan accounts which they had not previously had.

You will note that Mr. Coolidge's letter does not instruct or authorize the Federal Reserve Banks to circularize the member banks in each district. When I asked Mr. Batchelder about this point he advised that Kansas City had circularized its members of its own volition and that Governor Schaller had phoned Mr. Coolidge with reference to this matter and was told that this was not necessary.

I discussed this matter with Mr. Smead and suggested that he prepare a memorandum on the subject with particular reference to the potential effect of such prepayment of war loan accounts as being similar to an open market operation. His memorandum is attached hereto. Mr. Smead doubted, however, that any considerable portion of the war loan accounts would be prepaid as a result of Mr. Coolidge's authorization. The aggregate balance of the Treasury's war loan accounts as of October 15th was \$761,829,000 in round numbers. Mr. Crowley advised me that the F. D. I. C. had not been consulted in this matter.



Form No. 181

Office Correspondence

FEDERAL RESERVE BOARD

Subject:

D	ate	Oct/	ober l'	7, 1935
ſ	REC'D	IN	FILES	SECTION

To Governor Eccles
From Mr. Smead

APR 1 1 1938

As you know, the press carried an article a few days ago to the effect that the Treasury had changed its policy with respect to deposits of funds in designated depositaries so as to permit member banks to transfer such deposits to the Federal Reserve banks whenever they see fit, instead of only on dates fixed by the Treasury.

This morning we received a copy of a letter written by Mr. Coolidge to the Federal Reserve banks on this subject, and it appears that the Federal Reserve banks are authorized to permit any depositary bank to transfer Government funds to the Reserve bank upon request, unless the amount to be transferred is in excess of \$2,000,000, when the Federal Reserve banks were instructed to require the depositary bank to give notice of not less than six days prior to prepayment.

While this letter was addressed to the Federal Reserve banks, it is presumed that most of the depositary banks have read about it in the press. If no further action is taken in the matter, however, it is quite possible that the amounts transferred will not be such as to materially interfere with the System's open market policy. Should, however, depositary banks transfer any large portion of the \$800,000,000 or \$900,000,000 of Government funds now on deposit with them to the Federal Reserve banks, the System's open market policy would be materially affected as the deposit of Government funds with the Federal Reserve banks has the same effect upon excess reserves of member banks as a sale in corresponding amount of Government securities by the Federal Reserve banks. To give member banks the right to influence the volume of excess reserves by several hundred million dollars by transferring or failing to transfer funds to the Federal Reserve banks takes from the System certain powers which it must have if it is to exercise the

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Authority EXOrder 13356

Governor Eccles - #2.

Act. While the Treasury can take action at any time to offset any policy which may be adopted by the System, it seems to me that we should avoid wherever practicable giving depositary banks the tools with which to negative such policies as the System may decide upon. The fact that action taken by member banks might at times be in harmony with the System's open market policy is no justification for giving them powers in this respect they do not otherwise possess.

It is suggested, therefore, that if under the present authorization member banks do deposit any large volume of funds in the Federal Reserve banks the matter be taken up with the Treasury with the object of having the Treasury after consultation with the Board, and not the depositary banks, determine the volume of Government funds kept on deposit with the Federal Reserve banks.

I understand informally that some of the higher officials in the Treasury are in favor of requiring all Government deposits to be kept with the Reserve banks instead of keeping all but a relatively small part thereof with depositary banks.



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Form No. 131

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16--852

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То	Mr. Goldenweiser	Subject: Federal Reserve Special
From	Miss Burr	Investment Account

Changes in account since last Open Market Committee meeting, May 24, 1935.

Since the last Open Market Committee meeting in May, holdings of about \$29,800,000 of Treasury bills and \$82,700,000 of bonds have been replaced by Treasury notes, largely as a result of purchases to replace maturing Treasury bills, Consols and Panamas, and of the exchanges for the 4th Liberties redeemable on October 15. The maturities of the new issues of Treasury notes acquired fall in March and December 1939 and June 1940. At the time of the May meeting the System's holdings of First Liberties, redeemable in June, had been exchanged.

Bonds held in the account on May 24 and redeemed during the period include \$40,401,000 of 4th Liberties, \$24,645,450 of Consols and \$1,987,960 of Panamas. Only \$11,750,000 of the Liberties were exchanged for the 2 3/4 percent bonds maturing 1945-1947 offered in September. Funds from the redemption of Consols and Panamas appear to have been invested largely in Treasury notes. Transactions in other bonds during the period comprised chiefly of a decrease of about \$22,000,000 in the holdings of 2 7/8 percent bonds of 1955-1960.

New issues of Treasury notes acquired during this period include \$82,651,000 of 1 1/2 percent Treasury notes maturing March 15, 1939 acquired in part in exchange for the 4th Liberties;

\$77,075,900 of 1 3/8 percent Treasury notes maturing December
15, 1939 issued by the Government in July and purchased from
System account from funds from the redemption of Consols; and
\$121,883,200 of 1 1/2 percent Treasury notes maturing June 15,
1940 acquired largely in exchange for holdings of Treasury notes

Maturing on June 15 and October 1. Other transactions in outstanding issues of Treasury notes resulted in a small decrease in the
holdings of Treasury notes maturing during 1936.

Maturities of securities in the System account

Government issues in the System's account which mature before June 30, 1936 total \$716,000,000, about 30 percent of the total account. They include the following issues:

	Holdings in account (in millions of	Percent of total outstanding
	dollars)	issues
Treasury bills		
Weekly maturities Oct.		
23-Dec. 31	166	3 O
Weekly maturities Jan.		
1-March 31, 1936	158	26
March 16	31	15
Weekly maturities Apr.		
1-June 30, 1936	115	14
Treasury notes, maturing-		
December 15, 1935	63	15
April 15, 1936	134	24
June 15, 1936	49	7

The March 16 maturity of Treasury bills is in addition to the regular weekly maturities which fall on March 11 and March 18 and

- 3 -

this special maturity takes the place of other maturities on that date. When the latest series offered has been issued, the bills outstanding which mature on March 16 will total \$201,000,000.

The System's holdings of Treasury notes maturing on April 15 comprise nearly one-fourth of the total outstanding, while for the other note maturities during the fiscal year the proportion of the total issue held in the account is smaller.

Outlook for financing requirements, fiscal year 1936.

The amount of new funds which will be required for budget purposes for the balance of the fiscal year is subject to considerable variation. Budget prospects as indicated by revised estimates in a recent statement by the President are that the deficit during the current quarter will be about \$600,000,000 during the current quarter and during each of the remaining quarters of the year. The two most important uncertainties are (1) receipts from processing taxes which at their present rate may fall short of the estimates by as much as \$360,000,000 for the year, and (2) the work relief program which may be so slow in getting under way that total expenditures for the year will not reach the estimates.

In view of the fact that the Treasury, in addition to its regular turnover of Treasury bills, has only the December maturity of \$418,000,000 of Treasury notes to meet between now and April 15, and that its maturities of notes from April 1 to June 30 total \$1,245,000,000, it would seem likely that a substantial part of the

- 4 -

new funds needed for the balance of this fiscal year would be acquired by April 1.

There are two charts attached showing the distribution of the present debt by maturities:

- (1) Distribution of the interest-bearing debt by maturities each year beginning 1936.
- (2) Distribution of the maturities of the Treasury notes by quarters 1440.

These charts indicate the available dates from which maturities of new issues might be selected.

Government security prices

Conditions in the Government security market have improved somewhat in the past week after a period of declining prices in September. Chart ______ shows monthly averages for the period ______ beginning January 1932, weekly averages from July to date of the yields on long-term Government bonds, that is, bonds callable or maturing after eight years, and of Treasury notes with a period to maturity of three to five years, and the average discount rates on offerings of Treasury bills.

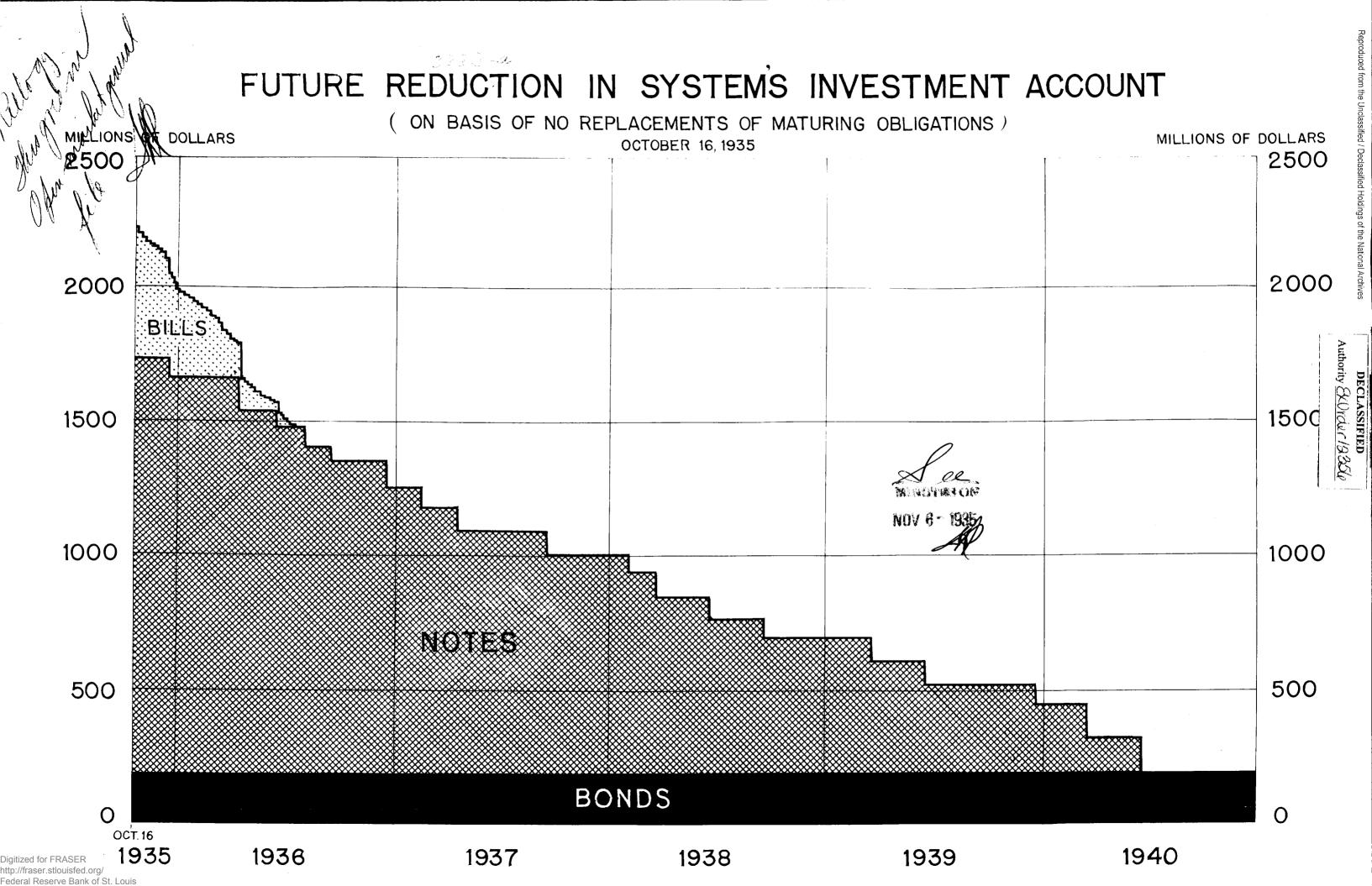
Yields on the three classes of Government securities declined slowly during the first half of the year and were at the lowest of midsum. The average yield on long-term Government bonds decreased from 2.97 percent for December 1934 to 2.59 percent for July 1935. Treasury notes declined from 1.78 for December 1934 to

they grant

- 5 -

Treasury bills declined from .17 of a percent in February to.07
of a percent in July. Prices for bonds and notes declined in
August and September and the yields on the long-term bonds were
2.84
carried up to 2.81 percent on September 18, and on Treasury notes
to 1.51 percent on September 18, and on Treasury notes
of Treasury bills increased to .25 of a percent for the week ending
September 28. The market has steadied somewhat during the past two
weeks and yields have improved slightly but they are still substantially
above the lows of the year. The average yield on long-term Treasury
bonds on October 16 was 2.75 percent, and on Treasury notes 1.29
percent. The discount rate on the bills offered on October 18 was

This is the second year in which there has been a marked decline in Government security prices in the late summer when the Treasury had before it the refunding of a substantial amount of Liberty bonds called for redemption on October 15. The decline which took place in August of this year was less severe than that during the summer of 1934.



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Form No. 131

Office Correspondence

To <u>Dr. Miller</u>

From Mr. Morrill

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	FET RAL RESERVE BOARD FILE
Date	October 12, 1955

X-9314-9/12/35

There is attached a copy of my memorandum to the Board in regard to the procedure for carrying out the requirements of the Banking Act of 1985 with respect to the procedure to be followed by the Board in keeping the official records of actions taken upon questions of policy by the Board and by the Federal Open Market Committee. I have asked Mr. Eccles to have this matter considered at a meeting of the Board prior to the next meeting of the Federal Open Market Committee, which, as you know, is scheduled for October 22.

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Authority & Order 19356

Form No. 131

Office Correspondence

FEDERAL RESERVE EOARD

Date Occober	10,	1955
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To_ Mr. Eccles

Subject:_

333.3-a

From Mr. Morrill

16-852

x-9314-9/12/25

There is attached a memorandum, a copy of which has been furnished to each member of the Board, outlining the requirements of the Banking Act of 1935 and the procedure proposed thereunder with respect to the records which are to be kept by the Board of Governors of the Federal Reserve System on questions of policy.

I suggest that you read this memorandum carefully and that it be brought up for discussion at the next meeting of the Board prior to the meeting of the Open Market Committee so that the procedure to be followed may be definitely approved or determined by the Board. It is particularly important that the Board pass upon this matter prior to the meeting of the Open Market Committee because it while been necessary to initiate a new procedure in connection with that meeting.

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Mr. Carpenter:

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A copy of the attached memorandum is being submitted to each appointed member of the Board as a basis for consideration of the questions involved at a meeting of the Board.

C. M.

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Authority EXOrder 19356

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OCT 1 1935

My dear Governor:

On August 5, 1924, Under Secretary Winston referred to your bank a copy of a letter addressed to the Federal Reserve Bank of Boston outlining the position of the Treasury with respect to the prepayment of War Loan deposit accounts. This rule has been followed rather closely since that date.

However, Title I of the Banking Act of 1935, subsection (h) (1), amending section 12B of the Federal Reserve Act, as amended, requires insured banks to pay an assessment of one-twelfth of 1% per annum on average deposits, and Title III of the same act, section 324 (d), amending section 19 of the Federal Reserve Act, as amended, requires member banks to keep the same reserves against deposits of the United States as against other deposits. In view of these conditions, it appears desirable to modify this rule.

Accordingly, you are hereby authorized, upon request from any depositary bank, to accept prepayment in full of War Loan deposit accounts exemted under the terms of Treasury Circular No. 92. In all cases where the amount to be prepaid is more than two million dollars, you should require the depositary bank to give notice of not less than six days prior to the date of prepayment. However, this is not to be an inflexible rule, and in any case where your bank so recommends the Treasury will be glad to give consideration to permitting immediate prepayment. Also, when the contemplated prepayment of any one War Loan account, or several War Loan accounts in the aggregate, amounts to one million dollars or over, you should notify the Commissioner of Accounts and Deposits by wire immediately upon receipt of advice of intent to prepay.

Very truly yours,

(Signed) T. J. Coolidge

T. J. Coolidge, Under Secretary of the Treasury.

M. J. Fleming, Esquire, Governor, Federal Reserve Bank, Cleveland, Ohio.

BDB:PC 9/27/35

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