

DECLASSIFIED
Authority EX Order 12356

CONFIDENTIAL

333.3-a-1
Final minutes
3/26/36

Final
see letter
3/11/36

Final
INTERIM DRAFT - SUBJECT TO CHANGE

MINUTES OF THE MEETING OF THE
EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
FEBRUARY 26, 1936.

The meeting was called to order at 10:05 a. m., there being present

Governor Harrison, chairman, and
Governors Young, Fleming, Seay, Schaller, and
Deputy Governor Burgess, secretary.

The report of operations was distributed and after discussion was
accepted and ordered filed.

There followed a discussion of maturities of holdings in the System
Account in March and April, and the effect of these on the distribution of
maturities in the account and on earnings. There was also discussion of the
facts that the provisions of the Banking Act of 1935 for a new open market com-
mittee become effective on March first, but that it would probably be impossible
to organize the committee for some days thereafter, and that in the meantime
some action with respect to the Treasury offering to be announced on March 2
should be taken promptly by the Reserve System. Governor Harrison said he had
discussed the matter with Governor Eccles and that they had agreed that it would
be desirable for the committee to continue to act until the organization of the
new committee.

The committee were unanimously of the opinion that if, in connection
with March financing, the Treasury offers securities in exchange for Treasury
notes maturing April 15, the \$132,386,000 of these notes in System Account
should be sold in the market and replaced to the extent of about \$50,000,000
with Treasury bonds, and the balance with Treasury notes or bills. It was

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understood, however, that in view of prospective changes in the organization of the open market committee this proposal would be submitted to the Board of Governors of the Federal Reserve System and carried through only if they were in agreement.

There followed a brief discussion of the Treasury financing program.

At 10:55 the meeting adjourned to the Treasury.

The meeting reconvened at the Treasury at 11 o'clock, there being present in addition to the committee

Secretary Morgenthau, Chairman Eccles, Dr. Viner, and Messrs. Bell, Haas, and Upham.

There ensued an informal discussion of various proposals as to Treasury March financing.

The meeting adjourned at 12:15 p. m.

W. Randolph Burgess,

Secretary.

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TENTATIVE DRAFT - SUBJECT TO CHANGE

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and final
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MINUTES OF THE MEETING OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
JANUARY 21, 1936

The meeting was called to order at 10:45 a. m. The following were present:

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

Governor Harrison indicated that the meeting was held at its own call in accordance with the unanimous vote of the meeting on December 17 to 18. Governor Harrison said he understood that due to the imminence of a change in the membership in the Board of Governors of the Federal Reserve System the present Board was not in a favorable position now to carry through any action recommended, but that fact he said did not absolve the committee from considering and expressing its views upon important questions of policy. These views would at least be available to the new Board as soon as organized even if the present Board should take no action.

On motion the secretary's report of operations and the preliminary memorandum were accepted and ordered filed, and the actions of the executive committee since the last meeting were ratified.

The secretary read a letter from the Board of Governors of January 20 with respect to one of the resolutions adopted by the committee at its meeting on December 17 and 18.

There ensued a general discussion with respect to the points of view which had been expressed, both inside and outside the Reserve System concerning various proposals for dealing with excess reserves. In the course of this discussion it was brought out that the situation had been somewhat altered by the new budgetary proposals, and the effect on the budget of Supreme Court action with respect to the A. A. A. and the possible passage of a bonus bill.

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During this discussion Governor Young left the meeting.

The committee discussed various methods by which, if it was thought advisable, the relationship between Federal reserve policy and fiscal policy might be recorded and possibly presented to the Administration.

[There was also a discussion of the question raised at the meeting of the executive committee on January 3, whether an increase in Treasury balances in the Reserve banks should be used as a method of reducing the volume of excess reserves. There was general agreement that this was not an effective and suitable method of dealing with excess reserves since its results could only be temporary and would be too limited in amount, and its use would involve complications because of possible conflicts of interest between the Treasury and the Reserve System.]

There was further discussion of the relation of the budget to Federal Reserve action during the course of which Governor Harrison read paragraphs from the President's budget message of December 29 and his Atlanta speech of November 29, both of which appeared to justify the impression generally held by the committee at its last meeting, that a tapering off of the deficit was probable.

Governor Norris presented for discussion, and to ascertain the general sense of the meeting a tentative draft of a resolution as follows:

[RESOLVED, that until further action by this Committee, or by the new Open Market Committee which will succeed it on March 1st, the System follow the policy of investing the proceeds of maturing Treasury Bills in Treasury Notes, having a maturity of three to five years, to such an extent as will yield approximately the same return in interest.

Further, that a public statement be made that this policy will effect a gradual reduction in the System's total holdings of Government securities, but that this reduction will be entirely in Treasury Bills, and that there will be an actual increase in the holdings of longer-term securities.]

[In discussing this resolution, Governor Norris stated that a primary consideration should be the proper administration of the Federal Reserve System.

The System to offset current maturities in the System account was now buying

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Treasury Bills it did not want at practically no yield. Under the resolution it would be necessary to purchase about one dollar of notes for every ten dollars of bills which were allowed to mature. In this way the longer-term government market would be supported, and the action would probably not influence rates beyond the Treasury bill market. Governor Norris indicated that he would not want to offer the resolution formally until after it had been ascertained that the Treasury Department would interpose no objection to the procedure indicated.

In the course of a general discussion Governor Seay pointed out that Governor Norris's proposal would go a very short distance in diminishing excess reserves.

Governor Harrison raised the question whether the suggested resolution would not be confusing when considered in relation to the December recommendations, as the two resolutions might appear to be contradictory or to represent a change of views.

Governor Calkins indicated the belief that any reduction in the holdings of government securities by the Reserve System would have large effects, in view of probable increased Government borrowing, and the risk involved in action of this sort would be greater than in December.

Governor Martin then offered the following resolution:

RESOLVED that certainty of recovery has not developed to such a point that action by this committee might not be detrimental. Therefore no action is the proper action at the present time, but that the situation should be again reviewed about the middle of February.

In the course of the discussion of this resolution it was pointed out that it would not be consistent with the December resolution. The resolution was not seconded.

There was then an informal discussion of proposals for a resolution which should have the effect of reaffirming the resolution adopted at the meeting in December, and Governor Calkins indicated he was prepared to offer such a resolution

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subject to detailed wording. A rough draft resolution was read by the Chairman.

The meeting adjourned at 12:45 to reconvene at 2 p. m. with the understanding that in the meantime the proposed resolution would be put into more finished form.

The meeting reconvened at 2:00 p. m. with the same attendance except that Governor Young and Governor Seay entered the meeting shortly after it had convened. The following draft resolution was then read:

(This draft includes a few later minor changes)

The Committee has considered the preliminary memorandum and has reviewed the credit situation. It is the sense of the Committee that, so far as business, credit, and banking conditions are concerned, there is nothing in the present situation to prompt the Committee to change its views as expressed in its resolution adopted on December 18, which the Committee respectfully renews.

The Committee recognizes that the risks of action are somewhat increased by the present budgetary situation, but it recognizes also that the longer action is delayed, the greater are the dangers resulting from the combination of inordinately large excess reserves and an unbalanced budgetary position, and the greater will be the difficulty of taking remedial action.

Viewing the situation as a whole, the Committee strongly believes that action looking toward a substantial reduction in excess reserves should be taken as soon as this may be feasible, in the judgment of the Board of Governors of the Federal Reserve System, having in mind the advantages of a coordinated program of recovery.

An informal expression of view indicated that a majority of those present were favorable to the resolution.

After discussion it was agreed that authority voted to the executive committee of the Federal Open Market Committee at three previous meetings 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. With respect to the amount of authority which the committee should have in shifting from shorter maturities to bonds, it was agreed that some limited authority was advisable in order to deal with any market

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situation that might arise. It was therefore 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 \$300,000,000.

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 within limits as to 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. It was therefore 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.

These motions would continue in effect similar authority voted at the meeting of the committee on December 17-18, 1935.

The question of another meeting of the committee was discussed, and in view of the uncertainties with respect to System organization it was agreed that adjournment should be sine die.

At 2:35 Governor Eccles entered the meeting.

Governor Harrison showed him the resolution which had been proposed, and Governor Eccles stated that he saw no reason why the resolution should not be voted on and indicated that the question of dealing with excess reserves was probably more a problem for the future when the new Board will have been organized.

Governor Harrison stated the view that if it were felt that banking and credit conditions indicated the need for System action, but that this action was hindered by other elements in the government program, it was at least the duty of the System to present the case to the Administration in some appropriate manner.

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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 within limits as to 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. It was therefore unanimously

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These motions would continue in effect similar authority voted at the meeting of the committee on December 17-18, 1935.

The question of another meeting of the committee was discussed, and in view of the uncertainties with respect to System organization it was agreed that adjournment should be sine die.

At 2:35 Governor Eccles entered the meeting.

Governor Harrison showed him the resolution which had been proposed, and Governor Eccles stated that he saw no objection to it, but indicated that the question of dealing with excess reserves was probably more a problem for the future when the new Board will have been organized.

Governor Harrison stated the view that if it were felt that banking and credit conditions indicated the need for System action, but that this action was hindered by other elements in the government program, it was at least the duty of the System to present the case to the Administration in some appropriate manner.

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Governor Harrison inquired about the results of the questionnaire relative to excess reserves which had been sent by the Board of Governors to each Federal Reserve Bank on December 19 and Governor Eccles indicated that he would send copies of the compilation of the replies to the members of the committee.

Governor Eccles left the meeting at this point.

Governor Harrison explained that the New York bank had forwarded to the Federal Reserve Board a study of the investment position of member banks in the Second District with the suggestion that the same sort of analysis might be interesting on a countrywide basis. Governor Eccles had suggested that copies of the study might well be distributed to the other Reserve Banks. As those present indicated an interest in the study, copies of the memorandum embodying it were then distributed. A copy of this memorandum is attached to these minutes.

The resolution on page 4 was then passed by the following vote:

<u>Yes</u>	<u>No</u>
Governors Harrison Norris Fleming Seay Schaller Geery Hamilton McKinney Calkins	Governors Young Newton Martin

Governor Martin explained that his negative vote was based on the belief that the facts do not yet show clearly that business has recovered sufficiently to make it wise to take action of this sort.

Governor Eccles re-entered the meeting at this point and discussed briefly the question of excess reserves. [During the course of this discussion he pointed out that he did not yet feel seriously concerned about the effect of excess reserves, since there had as yet been no excessive credit expansion; expansion was in fact desirable in the mortgage field and in the capital goods industries as a means of putting people to work.] The better the terms under which

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money could be afforded, the greater the probability of its use. A wider use of money in these directions would tend to solve the budget problem, he said.)

It was his view that the only danger lay in the difficulty of preventing the excessive use of funds for speculative purposes, for the bidding up of prices of existing properties, rather than for increased employment. He indicated, however, that this problem could be dealt with in part at least by regulations with respect to the use of credit for carrying securities. Too long a delay, however, in dealings with excess reserve would mean that when action was taken it could only take the form of a reversal of policy, and when this took place there would be more banks which had used excess reserves so fully that they would be vulnerable when reserve requirements were finally increased. He raised the question whether the policy could not be adopted of preventing further accumulation of excess reserves beyond \$3,000,000,000. If that were done, then a decrease of a billion dollars at any time would bring the volume of excess reserves within range of flexible operations in the open market.

In the course of general discussion Governor Harrison raised the question whether action which might be taken to reduce excess reserves through an increase of reserve requirements should not perhaps be accompanied by a reduction of discount rates as an indication that the System was not in fact desirous of restraining the use of credit but rather desired without reversing its easy money policy to correct a situation now fraught with possible dangers.

Governor Eccles raised the question whether it might not be desirable at the same time to make an announcement that the Reserve System would loan at par on government bonds.

┌ Governor Harrison raised the question whether there needed to be any public statement following this meeting of the committee, and it was agreed by Governor Eccles and the governors present that it would be desirable to have no public statement. ┘

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There then ensued an informal discussion with respect to the organization of the new open market committee, during the course of which a majority of those present indicated informally that they believed the alternate provided by the law should be from a different Reserve Bank from that of the member of the committee.

The meeting adjourned at 3:40 p. m.

W. Randolph Burgess,
Secretary.

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~~TENTATIVE DRAFT~~ SUBJECT TO CHANGE

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Final minutes
1/3/36

MINUTES OF THE MEETING OF THE
EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
JANUARY 3, 1936.

*Final
see letter
3/11/36*

The meeting was called to order at 10:37 a. m., there being present
Governors Young, Fleming, Seay, and Schaller, and
Deputy Governor Burgess, Secretary.

Mr. Burgess explained that Governor Harrison was unable to be present
because of illness. On motion Governor Young was designated chairman pro tem.

Mr. Burgess reported that the Federal Reserve Bank of St. Louis was
desirous of increasing its participation in the System account by \$15,000,000 in
order to better its earnings. It was agreed that the committee would have no
objections if the New York and Chicago banks, which had a considerable overage in
their holdings on the basis of the formula now used, were willing to reduce their
participations by this amount.

There ensued a brief discussion of Treasury financing in anticipation
of a later meeting with the Treasury.

There was also a brief discussion of the practice which might be followed
by the Treasury with respect to government deposits in the Reserve banks.

At 11:00 o'clock the meeting adjourned to meet with the Secretary of the
Treasury in his office, there also being present;

Governor Eccles, Under Secretary Coolidge, and
Messrs. Viner, Bell and Upham in behalf of the Treasury.

There was first an informal discussion with respect to the amount of
balances the Treasury should keep with the Reserve Banks and the relation of that
question to Federal reserve policy concerning excess reserves. It was generally
agreed that it should not be the function of the Treasury to manage excess reserves,
but Dr. Viner raised the question whether the Treasury should not stand ready to

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increase or decrease its balances at the request of the Federal Reserve System as a means of supplementing their credit policy. It was agreed, however, that this question needed mature consideration in view of the possible difficulties or public misunderstandings which might arise with respect to such an undertaking. It was suggested that the question might well be discussed by the next meeting of the Federal Open Market Committee.

In the meantime Secretary Morgenthau indicated that the Treasury intended to keep its balances in the Reserve Banks as nearly as possible between \$500,000,000 and \$600,000,000. Those present were in agreement with this.

There then ensued an informal discussion of the Treasury financing program and especially the question of sales of additional Treasury bills. No final conclusion was reached.

The meeting adjourned at 12:05 p. m.

W. Randolph Burgess

Secretary.

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MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C., DECEMBER 17-18, 1935

12/17/67

The meeting was called to order on December 17 at 10:10 a. m., there being present:

From the Board of Governors of the Federal Reserve System,

Chairman Eccles,
Governors Hamlin, Miller, James, O'Connor, Thomas and Szymczak.

From the Federal reserve banks,

Governor Harrison, chairman, Governors Young, Norris, Fleming, Seay, Newton, Schaller, Martin, Geery, Hamilton, McKinney, and Calkins.
Deputy Governor Burgess.
Messrs. Williams (New York) and Strater (Cleveland).

From the staff of the Board of Governors,

Messrs. Morrill, Clayton, Goldenweiser, Thurston, Thomas, Curry, Gardner, Garfield, Bethea, Carpenter, and Thompson.

Governor Harrison stated that it was proposed that this first joint meeting with the Board of Governors should be devoted to hearing the reports of specialists who had been studying the credit and financial situation and the problems before the System. He then turned the meeting over to Chairman Eccles, who first called upon Dr. Goldenweiser for a review of the credit situation.

Dr. Goldenweiser then reviewed fully various aspects of the business and credit situation and discussed alternative policies which might be adopted by the Federal Reserve System.

After the completion of Dr. Goldenweiser's statement, there ensued a brief general discussion of some of the points in his statement.

Chairman Eccles then called upon Dr. Williams, who reviewed the general question of excess reserves and the methods which might be adopted for dealing with them.

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At the conclusion of Dr. Williams' statement, there was a brief general discussion and a number of those present asked questions which were answered by Dr. Goldenweiser and Dr. Williams.

In the course of the discussion Mr. Miller pointed out that the powers granted by the law to raise reserve requirements were granted "to prevent injurious credit expansion." Mr. Miller raised the question how far action under this law could be justified at a time when no injurious expansion had yet taken place, and there was some brief discussion of this question in the course of which Dr. Goldenweiser suggested that the discussions at the time the legislation was passed made it clear that the legislation was specifically directed to dealing with the problem of excess bank reserves. Others pointed out that the power was one of prevention rather than correction and this implied action in advance of expansion.

At 11:50 a. m., the Board of Governors of the Federal Reserve System and staff members left and the meeting reconvened with only the representatives of the Federal reserve banks present.

A final form of the preliminary memorandum on credit conditions was distributed in substitution for the tentative draft which had been circulated by mail.

It was thereupon unanimously

VOTED that the report on operation be accepted and placed on file and the operations since the last meeting of the full committee be ratified.

It was also unanimously

VOTED that the preliminary memorandum in its final form be accepted and placed on file.

Governor Harrison reviewed the action of the Board of Governors on the resolution adopted at the last meeting of the committee as to shifts between maturities of government securities in System account. He reported that at first the Board had limited its approval to the action necessary to replace maturities between the date of approval and the next meeting of the committee, and that when

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the difficulty of operating under that approval had been pointed out, the Board had reinterpreted its action to extend its approval to shifts in maturities of Treasury bills and Treasury notes in an aggregate amount not exceeding \$300,000,000.

Governor Harrison reported that he had made this question the occasion for discussing with Chairman Eccles the desirable procedure to be followed with respect to questions of this sort, and had pointed out that just as the committee gave the Board an opportunity to make suggestions with respect to its minutes and the form of its resolutions, it was also desirable that the Board of Governors should give the committee an opportunity to make suggestions with regard to proposed Board action before it was finally taken. Chairman Eccles had informally agreed to this suggestion.

After some informal discussion of the action which the committee should take with respect to operating authorities, it was agreed to leave such action until after a consideration of general credit policy.

Governor Young then raised the question whether the committee did not have before it the resolution adopted by the Federal Advisory Council, which had asked that its action be referred to the Federal Open Market Committee.

Governor Harrison reported that he had requested the Board to send a copy of the resolution of the Federal Advisory Council to all governors and he read the letter from Chairman Eccles, with which the Council's recommendation had been transmitted to him as chairman of the Open Market Committee.

After further informal discussion of the Council's action, Governor Norris presented the following resolution which was seconded by Governor Young. (this form includes later changes).

That the participation of the Federal Reserve System in the Treasury Bill market no longer serves any useful purpose; that the System retire from this market by allowing the present holdings of these Bills to run off as they mature and that public notice be given to that effect, with such explanatory statement as may seem advisable.

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In discussing the motion, Governor Norris pointed out that while action was not necessary, it was highly desirable as the excess reserves constituted a source of danger. He indicated that even now there was some evidence of inflationary results from the excess reserves, especially in the bond market, where a 2 3/4% bond of a rural county seat could be sold at a premium. This kind of situation constituted an incentive to communities to spend money unwisely.

Governor Norris stated the belief that a reduction in the Treasury bill holdings of the Federal reserve banks would have a more desirable effect on the public, the Treasury, the banks, and the reserve banks than an increase in reserve requirements, which he believed would make banks more cautious in making loans and would constitute a hardship on some banks with only moderate amounts of excess reserves. He believed that the limitation of any reduction in securities to the Treasury bill market would avoid most of the possible harmful effects. With respect to the earnings of the reserve banks, he pointed out that an addition of \$50,000,000 to the five year note holdings of the banks would bring in as much yield as \$500,000,000 of Treasury bills.

There ensued a general discussion of Governor Norris' resolution, during the course of which Governor McKinney pointed out that country banks had available considerable excess funds outside of their excess reserves on deposit with the reserve banks, and Governor Calkins raised the objection that the resolution attempted to lay down a policy for eight months ahead, which went beyond the province of the present committee. There was further objection that the Treasury bill was almost ideal for holding by the Federal Reserve System and it was undesirable that the System should dispose of all of its Treasury bills. Governor Calkins also raised the point that any action, either in reserves or securities, might be misinterpreted as a reversal of policy, and that the most that should be considered would be some very moderate and tentative proposal.

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Governor Martin read a statement, a copy of which is attached to these minutes, advocating that no action should be taken at the present time because of danger of discouraging efforts toward recovery.

The meeting adjourned at 1:17 p. m.

The meeting reconvened at 2:37 p. m.

Governor Norris' motion was reread, in slightly revised form from the first reading and there ensued a general discussion of this resolution and of the reasons which might be cited in its support in the record of the committee.

In the course of discussion Governor Harrison pointed out that in order to deal fully with the problem of excess reserves, it will probably be necessary, sooner or later, to use both methods of control. He raised the question of what would be the effect on banks if reserve requirements are increased after the sale of a large amount of government securities had materially reduced the amount of excess reserves leaving individual banks less prepared to stand an increase in requirements.

Governors Norris and Calkins took the position that the more flexible method should be used first and the more rigid method afterwards, whereas Governor Harrison favored the adjustment of reserve requirements first, leaving later adjustments to be made by open market operations.

Governor Seay made the point that allowing maturities of bills to run off would not have any appreciable effect on the amount of excess reserves.

Governor Harrison presented for consideration the question whether there might be any advantage in adjourning until the middle of January, when some present uncertainties might be more clear, including,

1. The effect of the removal from the market of more than \$600,000,000 by the Treasury through an increase in its balances with the reserve banks.
2. The nature of the budget message.
3. The extent that business might be affected by a slack season.

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After further general discussion, Governor Harrison asked and received permission to read a memorandum on Excess Reserves and Federal Reserve Policy. A copy is attached to the minutes.

After some further discussion a vote was taken on Governor Norris' resolution and it failed of adoption by a vote of seven to five, as follows:

p 3

<u>Yes</u>	<u>No</u>
Governors Young	Governors Harrison
Norris	Fleming
Schaller	Seay
Geery	Newton
Hamilton	Martin
	McKinney
	Calkins

Governor Calkins wished the records to show that he voted no because the resolution would commit the System too far into the future.

Governors McKinney and Harrison wished the record to show that they believed an increase in reserves should precede a reduction in security holdings as a means of reducing excess reserves.

Governor Martin then presented, tentatively, for consideration, the following motion:

At this time the danger of discouraging recovery is of such weight that it is desirable to take no action until the general factors in the business situation become more settled. The possibility at this time has not developed into a probability though it may do so at any time. It is therefore moved that this meeting adjourn until some day in the middle of January for a review of the situation.

After further discussion Governor Schaller read the following motion, which had been agreed to by the board of directors of the Chicago reserve bank:

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.

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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.

J
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 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.

There ensued a discussion of these different proposals.

J
The discussion of this general question was suspended in order to deal with the necessary operating resolutions.

After discussion it was agreed that authority voted to the executive committee of the Federal Open Market Committee at two previous meetings 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

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to replace maturities from time to time and to make shifts in maturities to meet changing market conditions. With respect to the amount of authority which the committee should have in shifting from shorter maturities to bonds, it was agreed that some limited authority was advisable in order to deal with any market situation that might arise. It was therefore 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 \$300,000,000.

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 within limits as to 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. It was therefore 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.

This motion continued in effect a similar authority voted at the meeting of the committee on October 22-24, 1935.

Governor Young wished to be recorded as voting in favor of both of these motions on the belief that failure to act on the recommendation of the Advisory Council might create a situation under which these authorizations might be necessary.

There followed a renewed discussion of the proposals read by Governor Schaller.

At 4:25 p. m., by agreement, a recess was taken to attempt to draft a motion which would embody this proposal.

At 4:37 the meeting reconvened and a vote was taken on the following resolution:

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RESOLVED that it is the sense of this committee that for reasons outlined in the resolution adopted by this committee at its meeting last October, supplemented by the memoranda presented to the committee, that the Board of Governors should now favorably consider some early increase in the reserve requirements of member banks.

The resolution was lost by a vote of seven to five, as follows:

<u>Yes</u>	<u>No</u>
Governors Harrison Fleming Schaller Geery McKinney	Governors Young Norris Seay Newton Martin Hamilton Calkins

Governor Norris asked to be recorded as voting no on the ground that he favored some action, but preferred action in the open market.

Governor Seay asked to be recorded as voting no because he prefers to see action deferred until after the first of the year, when the situation might be clearer.

Governor Hamilton indicated that he voted no because the resolution included country banks. He said that he would vote for a resolution limiting the increase to reserve city and central reserve city banks.

Governor Martin indicated that his negative vote was on the ground that the situation was such as to make it undesirable to act at this time.

Governor Harrison left the room for a few minutes to confer with Chairman Eccles.

At 5:10 Governor Harrison returned and reported that Chairman Eccles expressed the hope that the open market meeting would not finally adjourn tonight but would reconvene in the morning. It was so voted and the meeting adjourned at 5:12 p. m., to reconvene as a Governors' Conference.

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In the course of the Governors' Conference a discussion arose as to the interpretation of the Banking Act of 1935 with respect to the power of the reserve banks to exchange government securities directly with the Treasury when an exchange offering was made. It was agreed that it would be undesirable at this time to raise the legal question and that instead it would be better to replace all maturing issues in the open market.

The meeting reconvened at 10:15 a. m., on December 18, there being present the Governors of all the reserve banks, Deputy Governor Burgess, Secretary, and Mr. Strater of Cleveland.

Governor Harrison indicated that he was concerned about adjourning the meeting with the record as it was. It was clear that the majority wanted to take some action, but were divided as to the method. They had before them a unanimous recommendation of the Federal Advisory Council to take some action. The committee would appear to be functioning badly if it favored some action but was unable to agree upon the method to be employed. The question might be asked why those who favored action through the raising of reserve requirements did not support open market action. His response would be that the greatest likelihood of agreement on action on the part of the reserve System lay in the proposal to increase reserve requirements.

After some further discussion, a draft resolution was read (this form includes later revisions).

The Committee has considered the preliminary memorandum and a memorandum on excess reserves and Federal reserve policy and has discussed various aspects of the credit situation.

The Committee finds that continued improvement has been made in business and financial conditions since its last meeting but the country is still short of a full recovery and there does not appear to be anything in the situation which makes it necessary for the reserve system now to reverse its policy of easy money. It is still the unanimous opinion of the Committee that the primary objective of the reserve system should be to lend its efforts toward the furtherance of recovery.

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It is the view of the Committee, however, that the amount of excess reserves of member banks constitutes a source of danger for the reasons expressed in the reports before the Committee at its October meeting and those considered at this meeting. The Committee believes, therefore, that action should be taken as soon as possible without undue risk to absorb a part of these excess reserves as a safeguard against possible dangers, and not as a policy of credit restraint. 213

Two principal methods of accomplishing this have been discussed by the Committee: (a) permitting the present system holdings of Treasury bills to mature without replacement, and (b) raising reserve requirements. Some of the members of the Committee would prefer the employment of method (a) and others would prefer method (b).

Those members of the Committee who prefer method (a), that is, the reduction of holdings of short-term Government securities by the system, are so strongly of the opinion that some early action should be taken that they join with those members favoring method (b), an increase in reserve requirements, in a recommendation that the Board of Governors of the Federal Reserve System should consider some early and substantial increase in the present reserve requirements of member banks which were fixed at a time when the gold base of the country was substantially lower than it is now. The Committee refrains from recommending or suggesting any precise time or percentage of increase or the classes of banks to be affected believing that the time or amount and character of action would, of course, have to be determined by the Board of Governors in the light of all the conditions as they appear at the time action is actually taken, not only business and credit conditions but also the banking situation particularly as it may be affected by the Government's fiscal policy.

Governor Calkins indicated that he feared the psychological effect on the banking fraternity of an increase in reserve requirements, even if it were confined to reserve and central reserve cities. There ensued a general discussion of this question in the course of which Governors Martin and Newton stated their belief that there was no need for action at the present time, and Governors Hamilton and Geery stated a preference for action in the open market.

Governor Geery suggested tentatively a proposal to allow Treasury bills to run off without replacement until the next meeting, but to recommend that if the Board of Governors does not approve this action, the recommendation be made that the Board should consider an early increase in reserve requirements.

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There ensued some discussion of this general proposal, in the course of which Governor Norris stated that he believed some action was desirable and that he was therefore prepared to approve action by a method different from the one he preferred for the sake of securing agreement to some action.

By an informal vote, ten of those present, all except Governors Martin and Newton, indicated that they favored some action at this time.

Governor Young moved that the action taken in all the votes of yesterday be rescinded. This motion was defeated by a vote of nine to three, as follows:

<u>Yes</u>	<u>No</u>
Governors Young Hamilton Seay	Governors Harrison Fleming Newton Schaller Martin Geery Norris McKinney Calkins

Governor Harrison then read, as amended, the resolution presented earlier, on pages 10 and 11, and this resolution was moved and seconded.

Governor Geery made a substitute motion as follows:

X RESOLVED that the System allow its holdings of Treasury bills to run off without replacement as they mature between now and March 1st. If, however, the Board of Governors does not approve of this method, the committee then recommends that the Board give consideration to some early substantial increase in reserve requirements.

After discussion, a vote was taken on this motion and it was lost by a vote of eight to four, as follows:

<u>Yes</u>	<u>No</u>
Governors Young Geery Hamilton Calkins	Governors Harrison Fleming Newton Schaller Martin Norris McKinney Seay

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There ensued a discussion of the earlier motion in the course of which Governor Hamilton made the following motion, as an amendment:

While the committee has agreed that it is necessary to take steps to curb or correct the condition of excess reserves, the committee is of the opinion that should reserve requirements be raised, the Board of Governors should give due consideration to the inadvisability of raising reserve requirements for other than reserve city or central reserve city banks.

In supporting this motion, Governor Hamilton stated that an increase in reserve requirements of member banks would be a handicap tending to prevent non-member banks from joining the Federal Reserve System.

The motion was not seconded, a number of those present pointing out that in their districts the reserve requirements of nonmember banks were higher than those for member banks. It was also suggested by a number that it would be better to avoid detailed suggestions in a recommendation to the Board of Governors regarding the increase in reserve requirements.

There was further consideration of the possibility of adjournment without definite recommendation and a motion to that effect by Governor Young was lost by a vote of nine to three, as follows:

<u>Yes</u>	<u>No</u>
Governors Young Newton Martin	Governors Harrison Fleming Seay Schaller Norris Hamilton Geery McKinney Calkins

A vote was then taken on the original resolution in its revised form as given on pages 10 and 11, as follows:

<u>Yes</u>	<u>No</u>
Governors Harrison Fleming Norris Seay Schaller Geery Hamilton McKinney	Governors Young Newton Martin Calkins

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It was understood, as at the meeting of October 22-24, that any action of this sort should be taken only in coordination with Treasury policy.

It was then moved that the Chairman of the committee be requested to call a meeting on or about January 15. This motion was passed by a vote of eleven to one, Governor Fleming voting no.

X Governor Fleming wished to be recorded in the negative on the ground that he was opposed to the fixing of a date until after the committee had been informed of the reaction of the Board of Governors.

The meeting adjourned at 12:15 p. m., to reconvene as a Governors' Conference.

At 12:55 p. m., the meeting reconvened as a joint meeting of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System, there being present:

From the Board of Governors of the Federal Reserve System:

Chairman Eccles,
Governors Hamlin, Miller, James, Szymczak and Thomas.

From the Federal reserve banks:

Governors Harrison, Young, Norris, Fleming, Seay, Newton,
Schaller, Martin, Geery, Hamilton, McKinney and Calkins,
Deputy Governor Burgess, Secretary, and Mr. Strater.

From the staff of the Board of Governors of the Federal Reserve System:

Messrs. Morrill, Clayton, Goldenweiser, Thurston,
Carpenter and Thompson.

The resolution adopted by the committee was read and there ensued a general discussion of the meaning of the resolution.

The meeting adjourned at 2:35 p. m., with the understanding that the Board of Governors would meet by itself to consider any suggestions it might have to make to the Committee with respect to the resolution or with respect to a public statement.

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The meeting was again called to order at 4:15 p. m., as a joint conference, the same people being present, except that Mr. Bethea of the staff of the Board of Governors of the Federal Reserve System was also present.

Chairman Eccles read a draft of a proposed statement to the press and there ensued a general discussion of this statement.

It was then moved and unanimously carried that a committee consisting of Chairman Eccles; Governors Miller, Harrison and Young and Messrs. Goldenweiser, Thurston and Burgess be asked to draft a statement.

The members of the Board of Governors of the Federal Reserve System and the staff representatives then left the meeting.

Governor Harrison stated that he feared that any press statement might be a source of embarrassment to future action though it was agreed that there was nothing inconsistent between a press statement of the sort proposed and the resolution which had been adopted. Governors Young and Harrison and Deputy Governor Burgess were authorized to confer with the representatives of the Board of Governors and agree on some form of public statement and also to make any slight modifications in the resolution which might be necessary to bring the two into conformity.

At 5:10 p. m., the meeting adjourned.

At 5:29 p. m., the meeting reconvened with the same attendance and the following press statement was read and unanimously agreed upon.

The Board of Governors of the Federal Reserve System and the Federal Open Market Committee have given extended consideration to the general business and credit situation and to the recommendation of the Federal Advisory Council and are of the opinion:

1. That continued improvement has been made in business and financial conditions but that the country is still short of a full recovery.
2. That the primary objective of the System at the present time is still to lend its efforts to a furtherance of recovery.
3. That there is at the present time no evidence of over-expansion of business activity or of the use of business credit.

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4. That the present volume of member bank reserves, which have been greatly increased by imports of gold from abroad, continues to be excessive, far beyond the present or prospective requirements of credit for sound business expansion.

Therefore, the special problem created by the continuing excess of reserves has had and will continue to have the unremitting study and attention of those charged with the responsibility for credit policy in order that appropriate action may be taken as soon as it appears to be in the public interest.

At 5:40 p. m., the meeting adjourned.

W. Randolph Burgess,
Secretary.

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STATEMENT BY GOVERNOR MARTIN
 READ AT MEETING OF OPEN MARKET COMMITTEE
 ON DECEMBER 17, 1935

There were approximately \$2,400,000,000 of Government bonds belonging to the System when the Open Market Committee ceased purchasing in the Fall of 1933. There has been no increase in the holdings of Governments since then.

In February, 1934, largely as the result of open market purchases of Governments, the excess reserves of member banks were \$890,000,000. The excess reserves since that time have increased to the extent of \$2,100,000,000, giving total excess reserves of approximately \$3,000,000,000.

This increase of \$2,100,000,000 in excess reserves is approximately the same as net gold imports for approximately the same period.

Since February 1, 1934, the date of devaluation, the Government has transferred \$825,000,000 to the gold certificate fund of the Federal Reserve Board. This next to gold imports has been the largest influence in creating excess reserves. It seems clear then that a large part of the \$2,100,000,000 excess reserves is the effect of gold imports.

It would be desirable to find out, if possible, what portion of the gold imports belongs to nationals of foreign countries. If, as it seems probable, the larger portion of this belongs to foreign nationals, then it is on short time deposit in this country or else invested in short maturities and probably to a less extent invested in American securities which have an immediate market on the Exchange. In any event, it would seem that the balance owned by foreign nationals is a demand obligation liable to be withdrawn at any moment. If this is true, then that part of the excess reserves the result of gold imports should not be allowed to become a base for credit extension in this country. The System, by the sale of its \$2,400,000,000 of Governments, could prevent these gold imports as excess reserves being used as a basis of credit. However, from what we can learn of the world situation, there seems no immediate danger of the withdrawal of gold, as the United States is the most stable country in the world at present.

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The Federal Advisory Council in its consideration of Open Market Operations of November 21, 1935 recommends that the System sell its Governments and says "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". Under the present existing conditions this "corresponding extent" is not such an extent as to cause any fears as to the soundness of either the currency or reserves of member banks. The fact is that on December 4, 1935, the twelve Federal reserve banks had gold reserves amounting to \$7,410,000,000, which less the notes in actual circulation amounting to \$3,648,000,000, leaves \$3,762,000,000 of gold available for reserve against deposits, which at the same time totalled \$6,231,000,000. This means that without disturbing our present holdings of Government securities the System has 100% gold reserves on Federal Reserve Notes and approximately 60% gold reserves against deposits. This certainly would seem a safe situation so far as gold backing is concerned.

It is true that we are feeling some stirrings of recovery and the indexes show improvement, but there is grave question whether these conditions are not still so predicated on artificial stimulants that with a lessening of the stimulants the impetus of recovery will show gradual slacking. After having "primed the pump" it seems foolish to take any chance of retarding the natural flow of the pump. Outside of the stock market, there seems little evidence of business going too fast. That condition, if it is considered wise, can be safeguarded by the raising of margins on stock market collateral and the remedy can be applied at the spot where the swelling is.

It is true that the System having an excess reserve of \$3,000,000,000 affords the possibility of a run-away condition, but we should not be fooled by considering a possibility as a probability. Such a possibility will undoubtedly develop into a probability, but the conditions at present do not offer signs of an immediate probability.

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In any action taken at the present time there is too great danger of discouraging efforts toward recovery; in fact, the danger of retarding recovery is too great to take the risk of any action not more clearly indicated than at the present time, whether it be the sale or run-off of Governments or the increase of reserve percentages.

One of the hardest things for a soldier under fire is to remain quiet and do nothing until the proper moment for action arrives. By nervousness, resulting in too much movement, although it is a relief to him, he may sacrifice his whole command.

There is a possibility which we feel sure will develop into a probability, but until the fact that it is more probable develops, it would seem that no action, which after all is very important action, should be taken. The time is here for moment by moment vigilance and preparation for immediate action when the signs are more pronounced. There is no difficulty in calling a meeting of the Open Market Committee whenever necessary.

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333.3-a-1
Final Minutes
11/22/35

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Final
TENTATIVE DRAFT SUBJECT TO CHANGE

MINUTES OF THE MEETING OF THE
EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
NOVEMBER 22, 1935

The meeting was called to order at 9:45 a. m., the following being present:

Governors Young, Fleming, Seay, and Schaller, and Deputy Governor Burgess, secretary.

On motion Governor Young was elected chairman pro tem.

The secretary's report of operations since the last meeting of the committee was submitted and accepted.

There ensued a brief discussion of the Treasury financing problem in December.

At 10:00 a. m. the meeting adjourned to Secretary Morgenthau's office.

The following were present in addition to the committee:

Secretary Morgenthau, Governor Eccles, Under Secretary Coolidge, and Messrs. Bell, Haas, and Upham.

There followed a general informal discussion of proposals for Treasury financing in December.

The meeting adjourned at 11:00 a. m.

W. Randolph Burgess,
Secretary.

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MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C., OCTOBER 22, 23, and 24, 1935

10-22-35
Final
draft
333.3-a-1
Final minutes

The meeting was called to order on October 22 at 10:30 a. m., there

being present:

Governor Harrison, chairman, Governors Young, Fleming, Seay,
Newton, Schaller, Martin, Geery, Hamilton, and Celkins.
Deputy Governors Gilbert and Burgess, secretary.
Mr. Strater was also present.

The preliminary memorandum on credit conditions and the report of operations were submitted.

X [A letter was read from the Board of Governors of the Federal Reserve System pointing out the requirements of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935 with regard to the record to be maintained in connection with the determination of open market policies. A copy of the letter is attached herewith.

After discussion it was unanimously

VOTED that to meet the requirements of law a record be kept, as suggested by the Board of Governors of the Federal Reserve System, setting forth such actions as may be taken by the committee upon questions of policy relating to open market operations, the votes taken in connection therewith, and the reasons underlying each such action, and that this record be transmitted to the Board of Governors of the Federal Reserve System.

Thereupon Governor Harrison left the meeting to report this action to Governor Eccles and returned shortly indicating that Governor Eccles had agreed to the suggested procedure on behalf of the Board.

At this point Governor Norris entered the meeting.

It was unanimously

VOTED that the report of operations be accepted and placed on file, and that operations in the System's special investment account since the last meeting of the committee be ratified.

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The preliminary memorandum on credit conditions was also accepted and placed on file.

There then ensued an extended discussion of the general credit situation and particularly of the existing large excess of bank reserves and methods which might be employed to absorb part of these reserves in order that the System might be in a position to deal more readily with any future overexpansion of credit.

During the course of this discussion the different members of the committee reviewed the advantages and disadvantages at this time of a sale of government securities or changes in reserve requirements of member banks, a number of the governors expressing preference for the first method and a number expressing preference for the second, while still others were doubtful of the desirability of any action at this time. The discussion also involved consideration of the various methods which might be employed in carrying out either of these two general lines of action, the desirability of a public statement in connection with them, and the relationship between Federal reserve policy and Treasury policy.

The opinion was expressed by a number of the governors that some definite action at this time to reduce the amount of excess reserves would be reassuring to the public as indicating that those charged with responsibility in connection with monetary policy were prepared to exercise the instruments of restraint in their control if and when necessary.

The meeting adjourned at 12:57 p. m. for lunch.

At 2:30 p. m. the meeting reconvened, there being present the same persons as in the morning meeting. Discussion was resumed of the same questions as in the morning meeting.

In the course of this discussion a number of those present emphasized that as far as the credit picture was concerned there appeared to be no necessity for any reversal in a policy now directed toward stimulating recovery, but the

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question was whether without impeding recovery there was something that could be done to pave the way for later control, and there was the further question whether any action that was taken could be explained publicly in such a way as to avoid misunderstanding as to its real purpose.

After a further general discussion it was agreed that Governor Eccles should be asked to join the meeting for an informal discussion prior to any attempt to formulate the views of the meeting.

At 3:10 Governor Eccles entered the meeting.

Governor Harrison summarized for him the opinions which had been expressed in the course of the preceding discussion. Governor Harrison's statement was supplemented by a number of the other governors.

Governor Eccles reviewed in some detail the recent changes in the credit situation and the problems now confronting the Federal Reserve System.

With respect to the instruments available to deal with excess reserves Governor Eccles was inclined to favor increase in reserve requirements as the most feasible method, though the dangers of possible public misunderstanding should receive serious consideration.

After some general discussion Governor Eccles left the meeting at 4:55.

It was agreed that the meeting would reconvene in the morning and that in the meantime those present should consider the form of a resolution which might set forth the opinion of the committee.

The meeting adjourned at 5 p. m.

At 10:15 on October 23 the meeting reconvened with the same attendance as on the preceding day. There was a brief discussion of the maturity of securities held in the System account, and the accounts of the several Federal Reserve Banks. It was suggested, and a number of those present agreed, that it might be desirable for the System when appropriate opportunity arises to increase its holdings of longer term securities provided an adequate amount of short term securities

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is always held for purposes of control. The point was made that some increase in long term holdings might at times aid in a proper adjustment between the rates on short term and longer term securities and at the same time might aid in maintaining the earnings of the Reserve Banks should there be further declines in yields on government securities.

Governor Harrison reported that he had talked with Mr. Coolidge, the Under Secretary of the Treasury, to see if the Treasury had any views with respect to Federal reserve policy at this time, and that Mr. Coolidge had indicated that he believed the Treasury would not desire to take any position which would in any way tie the hands of the Federal Open Market Committee.

There ensued a discussion of the resolution which might be adopted as setting forth the views of the committee, and drafts prepared by Governor Norris and Governor Young were read and discussed. A draft prepared by Governor Harrison was then read and, after discussion and amendment it was unanimously agreed that this resolution be the sense of the meeting, with the understanding that a further draft should be submitted for review as to detailed wording.

At 12:00 m. the meeting was adjourned as a meeting of the Federal Open Market Committee and reconvened as a Governors Conference.

At 12:50 p. m. the meeting reconvened as a Federal Open Market Committee meeting. The resolution previously considered was read as amended and unanimously adopted, as follows:

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.

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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, 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 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 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 \$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 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.

This motion had the effect of continuing a similar authority granted at the meeting of the committee on May 27.

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At 1:10 p. m. the meeting adjourned.

At 10:09 a. m. on Thursday, October 24, the meeting reconvened as a joint conference of the Board of Governors of the Federal Reserve System and the Federal Open Market Committee. There were present:

From the Board of Governors of the Federal Reserve System:
Governors Eccles, Hamlin, Miller, James, Thomas,
Szymczak, and O'Connor.

From the Federal Open Market Committee:
The same persons as were present on the preceding two days.

Under Secretary Coolidge.

From the staff of the Board of Governors of the Federal Reserve System:
Messrs. Morrill, Goldenweiser, Bethea, Carpenter, and
Thompson.

Two memoranda prepared by the Board's staff on "Business and Credit Conditions" and on "International Gold and Capital Movements" were distributed.

Governor Harrison reported to the meeting the action of the Committee on the preceding two days, summarizing the subordinate motions and reading in full the resolution with respect to credit policy.

Under Secretary Coolidge outlined to the meeting the purposes of the Treasury with respect to the sale of savings bonds, and after a brief discussion of this subject, left the meeting.

There ensued a brief general discussion of the conclusions of the Federal Open Market Committee.

At 11:04 the meeting adjourned as a joint conference of the Board of Governors of the Federal Reserve System and the Federal Open Market Committee.

W. Randolph Burgess,
Secretary.

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*333.3-a-1
Final Minutes
8/29/35*

MEETING OF MEMBERS OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, AUGUST 29, 1935

The members of the committee met at 10:30 a. m. in the office of the Board of Governors of the Federal Reserve System, there being present:

Governors Young, Seay, Fleming, and Schaller, and Deputy Governor Burgess, secretary.

It was agreed that Governor Young should be temporary chairman.

The secretary distributed the report of operations, which was reviewed.

Attention was called to the fact that the total shifts between maturities made under the authority of the last meeting of the full committee to make shifts to total \$250,000,000 had largely exhausted this authority, and it was agreed to recommend to all members of the Federal Open Market Committee that they approve by letter an additional \$100,000,000 of shifts pending a further meeting of the committee.

After an informal discussion of Treasury financing problems those present adjourned to the Treasury Department.

At eleven o'clock the members of the executive committee met with the Secretary of the Treasury, the Under Secretary, and Messrs. Bell, Haas, and Upham.

There ensued an informal discussion of Treasury financing problems.

In the course of the discussion Under Secretary Coolidge raised the question of the printing of new Federal reserve notes with the present redemption clause to replace old notes stating they were redeemable in gold at the Treasury. He indicated that the Treasury had no appropriation to use in replacing old notes in the hands of the Federal reserve banks with notes of the new form, but that any Federal reserve bank that wished could obtain the new notes at its own expense.

Trans letter 10/11/35 filed 333.3-a-1

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After further discussion of Treasury financing problems the members of the committee met separately at 12:40 p. m., and after discussion agreed that if the suggested Treasury refunding program is put into effect the Fourths in the System account should be replaced by notes unless other arrangements should be agreed upon by telephone.

The meeting was concluded at 12:45 p. m.

W. Randolph Burgess,
Secretary.

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FINAL
~~PROVVISORY DRAFT SUBJECT TO CHANGE~~

333.3-a-1
Final minutes
6/19/35

MINUTES OF THE MEETING OF THE
EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
JUNE 19, 1935.

The meeting was called to order in the Federal Reserve Board offices at 10:32 a. m., there being present:

Governors Young, Seay, and Fleming, and Deputy Governors Preston and Burgess, secretary.

On motion Governor Young was elected temporary chairman.

There was a general discussion of Treasury financing policy.

There was also a brief discussion of the possibility of aiding a better distribution of government securities among Federal reserve banks by some adjustment in the amount of Treasury currency allotted to the different banks. The secretary reported that Mr. Smead's office was preparing figures showing the shipment of Treasury currency to each Reserve bank.

At 11:00 a. m. the meeting adjourned to the office of the Secretary of the Treasury in the Treasury building, there being present in addition to those listed above:

Secretary Morgenthau, Governor Eccles, and Under Secretary Coolidge, and Messrs. Bell, Haas, and Upham.

There took place a discussion of the Treasury financing program until September 15, including a discussion of the continuation of financing through offerings of bonds for tenders, the refunding of Fourth 4 1/4 per cent bonds, and the possibility of a note or bond issue for cash subscriptions in July or August as a principal means of securing the necessary amount of cash.

The meeting adjourned at 12:00 m.

W. Randolph Burgess,
Secretary.

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FIN.
TENTATIVE DRAFT SUBJECT TO CHANGE

*333.3-a-1
Final minutes
6/7/35*

MINUTES OF THE MEETING OF THE
EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
June 7, 1935.

The meeting was called to order at 10:30 a. m., there being present:

Governor Harrison, chairman, Governors Young and Seay, and
Deputy Governor Burgess, secretary.

The secretary reported that Mr. Schaller and Mr. Fleming had been unable
to come because of other commitments.

There was general discussion of the Treasury offering of bonds for
tenders just completed. The secretary reported messages from the Chicago and
Cleveland banks, indicating that the banks in those districts had not generally
reacted favorably to this method of financing.

There was a general discussion of the effects of a proposed Treasury
offering of four or five year notes on June 15 in exchange for June 15 and August
1 maturities upon the portfolio of the Reserve banks, which included \$185,000,000
of these maturities. The exchange of these maturities for four to five year
notes would have the effect of lengthening the maturities in the System account
somewhat.

The secretary reported that in accordance with proposals at the meeting
of the Federal Open Market Committee on May 27 the Federal Reserve Bank of
Minneapolis had taken \$5,000,000 and the Federal Reserve Bank of Richmond
\$3,153,000 of government securities from the System participation of the Chicago
bank.

At 11:30 the meeting adjourned to the office of Under Secretary Coolidge
in the Treasury, Mr. Coolidge and Governor Eccles also being present. There en-
sued an informal discussion of the results of the trial on June 5 of the offering
of bonds for tenders as a method of Treasury financing. There was also discussion
of proposals for June 15 financing.

*Letters 10/11/35 filed 333.3-a-1
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At 12:00 o'clock the meeting adjourned to the Secretary of the Treasury's office and in addition to those listed above the following were present:

Secretary Morgenthau, Mr. Bell, Mr. Haas, and Mr. Upham.

After a further discussion there was general agreement that a five year note at an interest rate of 1 1/2 per cent would be appropriate for the refunding of June and August maturities on June 15. There followed a full discussion of the methods which the Treasury might use to obtain new funds between June 15 and September 15. The governors present reported the reactions in their districts from the method of offering bonds for tenders, and the secretary of the committee reported the information on this subject received from the Federal reserve banks of Cleveland and Chicago. While the majority of those present felt that the method of inviting tenders might well be established as a possible method to be used from time to time, Governor Harrison and Mr. Burgess expressed the view that the traditional plan of borrowing money by the Treasury has on the whole worked satisfactorily, the country is accustomed to it, and the Treasury has by that plan successfully and profitably financed itself during recent difficult years. In those circumstances there is some question of the advisability of adopting a new method as a principal means of securing new money just at this time when the Treasury financing program is progressing so satisfactorily and when the reports from various districts indicate considerable dissatisfaction with the new method not only on the part of dealers but by banks both large and small.

However, it was agreed that no final decision was necessary at the moment on this question, and that the committee would meet again with the Secretary in about two weeks.

The meeting adjourned at 12:30 p. m.

W. Randolph Burgess
Secretary

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FINAL

~~SENSITIVE DRAFT SUBJECT TO CHANGE~~

333.3-a-1
Final minutes

MINUTES OF THE JOINT MEETING OF THE
FEDERAL OPEN MARKET COMMITTEE WITH THE
FEDERAL RESERVE BOARD
HELD AT WASHINGTON, D. C.
MAY 28, 1935

5/28/35

The meeting was called to order at 11:00 a. m., there being present the following:

From the Federal Reserve Board
Governor Eccles, Chairman, Vice Governor Thomas, and
Messrs. Hamlin, Miller, James, Szymczak, O'Connor, Clayton,
Morrill, Carpenter, and Goldenweiser.

From the Committee
Governors Young, Harrison, Norris, Fleming, Seay, Newton,
Schaller, Martin, Geery, Hamilton, McKinney, and
Deputy Governor Day. Mr. Strater was also present.

Governor Harrison reported to the meeting the action of the committee at its meeting the previous day, and explained that in connection with the motion authorizing purchases or sales after telegraphic approval of the committee and approval of the Federal Reserve Board, it was the unanimous opinion of the committee that no purchases or sales should be undertaken at the present time.

There ensued a general discussion of open market policy, in the course of which question was raised concerning the position of the Federal Reserve Bank of Chicago, and the correspondence between that bank and the Federal Reserve Board was read. Copies of this correspondence are attached to these minutes. ✓

With respect to the distribution of government securities between Federal reserve banks, Governor Harrison reported the discussions of the committee on the preceding day and indicated that the various Federal reserve banks now holding less than their pro rata share were to explore the question of increasing their holdings, and that some shift in securities would probably result. In the course of this discussion Governor Schaller asked Governor Eccles whether the Federal Reserve Board approved the request of the Federal Reserve Bank of Chicago that some of the other banks take over a portion of its holdings of government

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securities. Governor Eccles stated that the Board was not in a position to force the banks to take any of Chicago's holdings, but would have no objection to their doing so.

There ensued further discussion of the policy to be pursued, at the conclusion of which there was unanimous agreement on the part of all those present that no sales of government securities should be made at this time, but there was agreement that the System should be prepared to act promptly when the time came for a change in open market policy.

The meeting adjourned at one p. m.

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

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FINAL
~~PRELIMINARY~~ DRAFT - SUBJECT TO CHANGE

333.3-a-1
Mr. Burgess's secretary advises
that these minutes are now
final. MW 6-20-35
Final Minutes

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
APRIL 17, 1935

4/17/35

The meeting was called to order at 10:40 a. m., in the offices of the Federal Reserve Board, there being present

Governor Harrison, chairman, Governors Young, Seay, and Schaller, and Deputy Governor Burgess, secretary.

The secretary's report of operations was reviewed and accepted.

At this point Governor Eccles entered the meeting.

After a brief general discussion the meeting adjourned to the Treasury Department.

At 11:00 a. m. the committee met with the Secretary of the Treasury in his office, there being present in addition to those noted above Secretary Morgenthau, Under Secretary Coolidge, and Messrs. Bell, Haas, and Upham.

There was a brief informal discussion of the program the Treasury might follow in its issue of Treasury bills in ensuing weeks.

The meeting then proceeded to an informal discussion of the proposals for an offering of obligations to refund the First Liberty Loan bonds which had been called for redemption on June 15 next.

The meeting adjourned shortly before 12:00 m. and reconvened at 12:00 m. in the offices of the Federal Reserve Board.

After discussion it was voted under general authority to make shifts between maturities voted by the Open Market Committee on February 5 to convert the holdings of First Liberty Loan bonds in system account into Treasury notes if such notes should be offered as part of a conversion program, or into other obligations available in the market. In this connection it was suggested that consideration be given to exchanging a part of the maturing obligations into short term bonds

Trans letter 6/14/35 filed 333.3-a-1

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rather than Treasury notes in order to secure a better yield.

After discussion it was also voted to authorize shifts between maturities in the System account up to \$25,000,000 if they should be necessary as an influence towards maintaining an orderly market. It was understood that this authority would not be exercised with the aim of pegging the market at any point, but solely if necessary to avoid disorderly conditions in the bond market.

In view of the informal suggestion which the Secretary of the Treasury had made two weeks before over the telephone that consideration might be given to a reduction in the System portfolio of government securities, the question was raised whether it would be wise at this time to make some sales of such securities. It was noted that when the suggestion had been discussed by telephone two weeks ago with the members of the executive committee and with Governor Eccles, it was not believed wise to take any action. It was also pointed out that the Treasury was not now in favor of making such sales at the present time. Governor Schaller and Governor Seay emphasized the desirability of making sales as a means of securing more flexibility for the portfolio when it could be done properly and without disturbance.

Governor Harrison suggested that the principal question was whether sales should be made simply for the purpose of establishing the principle of flexibility before the System was prepared to make sales as a part of a general credit policy of restraint.

Governor Harrison also reported discussions which had been held during past months by the directors and officers of the Federal Reserve Bank of New York with respect to this question, and by agreement the Secretary read a confidential memorandum which had been prepared for and approved by the directors of the New York bank on March 21, 1935 as representative of the views of that bank at that time. A copy of this confidential memorandum is attached herewith.

continued

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✓ After further discussion and review of the question it was unanimously decided to take no action at the present time.

The meeting adjourned at 1:15 p. m.

At 2:30 p. m. the meeting reconvened, the same persons being present.

It was suggested that a full meeting of the Federal Open Market Committee should be held in the latter part of May or early in June at the time when June financing would be discussed.

There ensued a discussion of the distribution of government securities among the Reserve banks. Governor Schaller pointed out that the holdings of the Chicago bank were larger than their fair proportion on the basis of the method of allotment now being used. The question was raised whether there should be an attempt to make redistribution of securities to bring the holdings into better conformity with the present allotment ratios. Question was also raised whether and on what basis the New York and Chicago banks might throw into System account their present outright holdings of government securities.

After discussion it was decided not to attempt any major readjustment at present, but to make a gradual redistribution by filling requests for additional allotments wholly from the participation of the Chicago bank in the System account until a better equalization of holdings had been reached, and it was understood that the Secretary would communicate with banks showing a deficit at the end of April.

The question of further sales of 2 7/8 per cent bonds was discussed and it was agreed that such sales would be arranged as and when market conditions are appropriate.

Governor Young raised the question whether it would not be wise to anticipate maturities of notes when they were within six months of maturity. The

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committee was in sympathy with this idea in so far as it could be arranged with advantage in the market from time to time.

There was some informal discussion of the amount of Treasury balances in the Reserve banks, and attention was called to the fact that these balances were larger than usual.

There was some informal discussion of the financial implications of the bill for social security.

The meeting adjourned at 2:50 p. m.

W. Randolph Burgess,
Secretary.

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FINAL DRAFT
~~PRELIMINARY DRAFT~~ - SUBJECT TO CHANGE

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
MARCH 13, 1935.

3/13/35

The meeting was convened at 10:40 a. m. at the offices of the Federal Reserve Board, there being present
Governors Young, Fleming, Seay, and Schaller, and
Deputy Governor Burgess, secretary.

In the absence of Governor Harrison, Governor Young was elected chairman pro tem.

Mr. Burgess reported that in accordance with the agreement of the members of the committee by telephone, and under authority of the resolution adopted by the Federal Open Market Committee on February 4 to buy, sell, or shift up to \$250,000,000 of government securities, one half of the called Fourth 4 1/4 per cent Liberty bonds held in the System open market account had been delivered to the Treasury for conversion into the new 2 7/8 per cent bonds, and that there was still held in System account \$42,367,700 of these bonds. While the committee had authorized the sale of these bonds in the market when possible, (with corresponding purchases of other maturities) the market for Fourths had not been strong enough to carry out the operation without interfering with the conversion. Mr. Burgess reported that the Federal Reserve Bank of New York had followed the same procedure as the committee with respect to its holdings of \$12,000,000 of Fourth 4 1/4 per cent Liberty bonds.

After discussion it was agreed that the remainder of these bonds in the System account should be sold in the market if it could be done without depressing the market and thus interfering with the conversion. If this was not possible it was agreed that they should be converted into the new 2 7/8 per cent bonds with

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the understanding that an attempt would be made later to shift into other maturities a sufficient amount to avoid relatively excessive holdings of a single bond issue.

Mr. Burgess also reported that under the agreement of the committee to buy up to \$25,000,000 of bonds in order to maintain an orderly market, the following purchases had been made:

For System Account

\$ 750,000 - 3 % Treasury bonds 1951-55
775,000 - 3 1/2% Treasury bonds 1949-52
4,050,000 - Fourth Libertys, for later delivery
1,100,000 - 3 % Treasury bonds of 1951-55 for later delivery
2,240,000 - 3 1/8% Treasury bonds 1949-52 for later delivery

System holdings of Treasury bills had been reduced by an amount corresponding to the amounts of the above purchases actually delivered. As the market improved it might be possible to resell to the market some of the bonds delivery of which had not yet been taken. He also reported that the Treasury had now undertaken to make purchases of called Fourths for its own account in order that the System might not be loaded up with too large an amount of this maturity in view of its already large holdings.

There was then a brief discussion of the question whether the Treasury should call for redemption on June 15 any or all of the First Liberty Loan Bonds now outstanding.

At 11:00 a. m. the committee adjourned to the office of the Secretary of the Treasury, there being present in addition to the committee,

Secretary Morgenthau, Under Secretary Coolidge, and Messrs. Bell, Haas, and Upham.

Governor Young reported the action of the committee with respect to its holdings of called Fourth 4 1/4 per cent Liberty Bonds, and with respect to

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purchases of bonds in the market to maintain an orderly market. There ensued a discussion of the proper function of the Federal Reserve System with respect to the government security market, in the course of which there was pointed out the necessity for a bank of issue to maintain a large proportion of its assets in short term securities which can be liquidated rapidly at a time when it becomes the duty of the bank to exercise restraint.

There followed an extended informal discussion on the question of whether the Treasury should call for redemption on June 15 the first Liberty Loan bonds. All the members of the executive committee with the exception of Governor Seay recommended that the First 4 1/4 per cent bonds be called, but that the First 3 1/2 per cent bonds should not be called at this time. Governor Seay recommended that both issues should be called.

At about twelve o'clock the meeting adjourned briefly to Under Secretary Coolidge's office where the discussion was continued.

At 12:20 p. m. the committee returned to the Federal Reserve Board offices.

After a brief further informal discussion of general matters, the meeting adjourned at 12:45 p. m.

W. Randolph Burgess,
Secretary.

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~~TENTATIVE DRAFT - SUBJECT TO CHANGE~~ *(See letter 6-7-35)*

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. O.
FEBRUARY 27, 1935.

2/27/35

The meeting was called to order at 10:30 a. m., there being present Governor Harrison, chairman, Governors Seay and Schaller, and Deputy Governors Paddock and Burgess, secretary.

✓ Governor Harrison raised the question whether it was wise for the Treasury to continue the procedure of having the Under Secretary visit New York immediately before a new issue. He pointed out the danger that the Treasury might be criticized for unavoidably giving some information concerning the forthcoming issue to those few people who participated in the interviews in advance of a general announcement. There was an informal discussion of this and related questions.

At eleven o'clock the meeting adjourned to the office of the Secretary of the Treasury there being present, in addition to the committee,

Secretary Morgenthau, Governor Eccles, Under Secretary Coolidge, and Messrs. Bell, Haas, and Upham of the Treasury Department.

The Secretary of the Treasury indicated that the Treasury proposed to increase the amount of \$10 silver certificates to be issued, because it had not been possible to put into circulation the full amount of currency required by silver purchases without going beyond the \$1 and \$5 denominations.

There ensued a detailed discussion of proposals for the forthcoming Treasury issue with respect to the character of the offerings, their maturity, and rate.

✓ In the course of this discussion Governor Harrison pointed out that government securities had been rising in price with great rapidity to a record high in spite of an enormous Treasury deficit. As a result the present position might be

Trans letter 6/7/35 filed 333.3-a-1

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considered in some measure vulnerable and interfered somewhat with the distribution of new issues. He said he had no detailed suggestion to make just now, but believed from time to time consideration should be given to plans which might prevent too rapid increases of prices in brief periods of time and which might insure a more healthy state of the market.

There was also discussion of the desirability of the Under Secretary visiting New York immediately before the issue, and it was agreed that for the future it might be desirable to avoid visits just at these times, with the understanding that the governors of the Reserve banks represented on the committee would be of all possible assistance to the Treasury in exploring market conditions.

At 12:15 p. m. the committee left the Treasury for the offices of the Board, and at 12:50 p. m. reconvened there.

Governor Harrison reported briefly upon the status of the Banking Act of 1935.

The secretary of the committee reported that the results of the first month of operation in 1935 showed that several of the Reserve banks were operating at a deficit or at a very small surplus. He indicated that a request for a further allotment of government securities had been received from the Richmond bank and might be expected from other banks. It was understood that adjustments between banks would be made when requested on the general basis of the computed figures as to the requirements of the several banks for expenses, dividends, and chargeoffs.

The meeting adjourned at 1:15 p. m.

W. Randolph Burgess

Secretary

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2/20/35

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
FEBRUARY 20, 1935.

The meeting was called to order at 10:15 a. m., there being present
Governors Harrison, chairman, Fleming, Seay, and Schaller
Deputy Governors Paddock and Burgess, secretary.

The secretary's report on open market operations was distributed and
ordered accepted and placed on file. There ensued an informal discussion of
banking legislation and of Treasury financing.

At eleven o'clock the meeting adjourned to the office of the Secretary
of the Treasury, there being present in addition to the members of the committee

Secretary Morgenthau, Governor Eccles, Under Secretary Coolidge,
Messrs. Bell, Haas, Upham, of the Treasury.

The Secretary discussed with the committee proposals for Treasury
financing, including the suggestion that the Treasury might issue nine months
discount bills in addition to six months bills and gradually increase the total
amount of bills outstanding and including also problems of financing operations
on March 15.

The committee was asked to meet again with the Secretary on Wednesday,
February 27, for further discussion of March financing.

At 11:50 a. m. the committee adjourned to the offices of the Federal
Reserve Board, and after general informal discussion adjourned at 1:30 p. m.

W. Randolph Burgess

Secretary

Fraser letter 6/7/35 filed 333.3-a-1

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*Final minutes
(see letter 6-7-35)*

~~MINUTIVE REPORT - SUBJECT TO CHANGE~~

2/5/35

MINUTES OF THE MEETING OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
FEBRUARY 5, 1935.

The meeting was called to order at 10:40 a. m., there being present Governor Harrison, chairman, Governors Norris, Fleming, Seay, Newton, Schaller, Martin, Geery, Hamilton, McKinney, and Calkins Deputy Governors Paddock and Burgess, secretary.

In accordance with the regulations governing the organization of the Federal Open Market Committee which provide that the election of chairman, secretary, and executive committee for the ensuing year should take place at the first meeting in each calendar year, the following were on motion elected to these positions:

- Chairman, Governor Harrison
- Secretary, Deputy Governor Burgess
- Members of executive committee, representatives of the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, and Chicago.

It was further

VOTED that the chairman of the full committee be chairman of the executive committee.

After discussion it was

VOTED that the action of the executive committee on January 25 which had been approved by all members of the full committee by telegraph, and by the Federal Reserve Board, be ratified.

There ensued a discussion of the responsibility of the Federal Reserve System for the status of the government security market in view of the fact that under recent conditions the government security market had become a dominating factor in the money market. There was also discussion of the possible effects upon the government security market and the money market of different possibilities

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of action by the Supreme Court with respect to gold clause legislation.

In the course of this discussion it was generally agreed that it was neither possible nor desirable to peg prices of government securities at any point, but that it might be desirable in certain conditions to ease movements in either direction.)

There was also some discussion of the probable results of any reductions in System holdings of government securities which would appear in the weekly statement, and it was the general opinion that under present conditions the results of sales might be seriously adverse to the position of the government bond market.

The report of operations and the preliminary memorandum on money market conditions were distributed and some time was taken for those present to review the two documents. It was then

VOTED that the report of operations and the preliminary memorandum be received and placed on file.

There was a brief general discussion of the formulae which should be used in determining the participations of the several banks in any purchases or sales which might be made. It was thereupon

- VOTED (1) that the several banks should participate in sales in accordance with the ratio of their holdings in the System account to the total account.
(as shown in Column B in Exhibit C of the report of operations.)
- (2) that banks should participate in any purchases in accordance with the ratio of their requirements for expenses, dividends, and chargeoffs to the System total.
(as shown under Column C in Exhibit C of the report on operations.)
- (3) Special requirements of individual banks should be adjusted by the executive committee.
- (4) The basis of participation should be reconsidered at any time that a change in conditions appeared to make such reconsideration desirable.

There followed a discussion of future program pending a further meeting of the full committee, and it was

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VOTED that subject to the approval of the Federal Reserve Board, and superseding previous authorizations, the executive committee be authorized to buy, sell, or make shifts between maturities of government securities up to \$250,000,000 and that it be further authorized to buy, sell, or make shifts between maturities of an additional \$250,000,000 on telegraphic approval of a majority of the open market committee in case of emergency requiring action before a meeting of the full committee could be arranged.

There ensued an informal general discussion of banking legislation, in the course of which Governor Harrison reported the activities of the legislative committee.

The meeting adjourned at 12:20 p. m.

The meeting reconvened at 12:30 p. m., the following being present from the Federal Reserve Board in addition to members of the Federal Open Market Committee:

From the Federal Reserve Board
Governor Eccles, and Messrs. Hanlin, Miller, James, Thomas
and Szymczak.

From the Board's staff
Messrs. Morrill and Clayton.

Governor Harrison reported the action of the committee and summarized briefly their discussions.

After a brief general discussion the meeting adjourned at 1:15 p. m.

W. Randolph Burgess,
Secretary.

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MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE
OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C., JAN. 25, 1935

1/26/35

The meeting was called to order at 10:45 a. m. in the offices of the Federal Reserve Board, there being present

Governor Eccles,
Governors Young, Fleming and Schaller, and
Deputy Governors Burgess and Hutt.

In the absence of Governor Harrison, Governor Young was elected chairman pro tem.

✓ Governor Eccles raised the question whether the government security portfolio of the Reserve banks might not well be made more flexible, rather than being static at the same constant amount. He also stated that the Treasury had been concerned over the extremely rapid rise in government bond prices, and raised the question whether the Reserve banks could not operate in the market to exercise some restraining influence on either excessively rapid rises or declines in prices of government securities in order that the market might be maintained in sound condition in anticipation of government financing in March. ✓

It was the view of the Treasury that this was more logically the business of the Reserve banks than of the Treasury, involving as it does the regulation of the money market. While a certain amount of influence over the market could be exerted by making shifts between maturities in the System Account the question had been raised whether the purpose could not be accomplished better by some changes in the total portfolio of securities held by the Reserve banks. On other grounds there was, moreover, a considerable argument for greater flexibility in the portfolio.

✓ [There ensued general discussion of the implications of this course including the question of the possible adverse reaction of the public and the market

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to any sale of government securities by the Reserve banks. There was also discussion of the recent effect on the market of anticipation of action by the Supreme Court.)

At 11 o'clock the meeting adjourned to reconvene in a few minutes in the office of the Secretary of the Treasury. The Secretary and the Under Secretary were present in addition to those listed above.

The Secretary raised the same question as had Governor Eccles of the desirability of flexibility in the System Account rather than the holding of a static fixed amount of securities.

Governor Eccles pointed out that if the System Account were to show any reduction it would be necessary to issue a carefully prepared statement giving the reasons for the change.

After further discussion of recent and possible market conditions it was

VOTED that a wire be sent to all members of the Federal Open Market Committee to request them subject to the approval of the Federal Reserve Board to authorize the executive committee, pending a meeting of the full committee in the near future, to make purchases or sales or shifts between maturities in the System Account up to a total of \$250,000,000. This authorization is in addition to the authorization to make shifts between maturities up to 100 million dollars voted at the December 17 meeting. This authorization is desired primarily to place the System in position to use its influence towards preventing any possible disturbances in the market pending a meeting of the full committee.

After some informal discussion of Treasury financing the meeting adjourned at twelve o'clock and returned to the Federal Reserve Board offices where it reconvened.

After discussion the motion given above was put in its final form and there was an informal discussion of possible operations under this motion in which the dangers of adverse public reaction which might arise from fluctuations in the

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portfolio were emphasized and a number of those present expressed the hope that it might not be necessary to show any change in the total of the account in the near future. It was also suggested that a great deal could be accomplished in dealing with the market by shifts between maturities in the account without any change in the total.

The meeting adjourned at 12:25 p. m.

The meeting reconvened at 3:30 p. m. There was an informal general discussion of Treasury and Federal reserve problems.

The meeting adjourned at 4:25 p. m.

W. R. Burgess,

Secretary.

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Final Minutes
12/17/34

MINUTES OF THE MEETING OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
DECEMBER 17, 1934

The meeting was called to order at 10:30 a. m., the following being present:

Governors, Young, Norris, Seay, Fancher, Geery, and Martin.
Deputy Governors Burgess, Johns, and McKay

On motion Governor Young was elected chairman pro tem.

The secretary's report of operations was distributed and after discussion it was

VOTED that the report be accepted and placed on file.

It was

VOTED to ratify the action of the executive committee in replacing Treasury notes which matured on December 15, with other issues, this action having previously received telegraph approval of all governors.

After discussion the following action was taken with respect to maturities in the portfolio which might have to be dealt with prior to another meeting of the committee.

VOTED that the Executive Committee be given authority to replace the Treasury notes maturing on March 15 and the maturities of called 4th 4 1/4% Liberty Bonds in System Account either in the market or with any securities which the Treasury may offer in exchange.

There was a brief discussion of the desirability of the System's being prepared to make shifts between maturities in the System portfolio, if that should appear desirable as an aid to maintaining stability in the government security market, either in connection with Treasury financing operations or at other times.

It was then

VOTED that the Executive Committee be given authority to make exchanges between maturities in the System Account up to a total of \$100,000,000.

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The members of the Federal Reserve Board were then invited to join the meeting, and at 11 o'clock they entered the room, the following being present in addition to the committee:

From the Federal Reserve Board:

Governor Eccles and Messrs. Hamlin, James, Szymczak, and Thomas

From the Federal Reserve Board staff:

Messrs. Goldenweiser, Morrill, Smead, Wyatt, Bethea, Carpenter, and Walters

Governor Eccles discussed with those present certain aspects of the banking situation and of the function of the Federal Reserve System under present conditions.

In the course of the discussion Governor Eccles raised the question whether it would not be a mistake for the Federal Reserve System to confine its purchases solely to short term government securities and whether it would not be wise in the interest of public confidence for the Reserve System to exercise leadership by some further *purchases of long time Government bonds on appropriate occasions* shifts in the portfolio from short to long time government bonds on appropriate occasions.

Governor Eccles also suggested the desirability of a broadening of the eligibility provisions of the Federal Reserve Act which would encourage the private banking system to support the markets for longer term credit.

In reply to questions Governor Eccles said he did not have any specific suggestions to make at this time with respect to the relationship of the Federal Reserve System to the government security markets, but believed that the Reserve System should be prepared if and when necessary to support this market vigorously and independently without waiting for a request from the Treasury.

There was extended general discussion in the course of which Governor Young reported to the members of the Federal Reserve Board the action which had been taken by the Open Market Committee. The meeting adjourned at 12:50 p. m.

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The meeting reconvened at 3:45 p. m. following a meeting of the committee on legislative program. Mr. Coolidge was present in addition to the members of the committee, and Governor Eccles entered the meeting later.

There followed an informal discussion of Treasury financing including a discussion of means of avoiding padding of subscriptions, Federal reserve policy in purchasing long time government securities, etc.

In the course of this discussion Under Secretary Coolidge stated his belief that the Federal Reserve System had done all that was necessary to insure proper absorption of government bond issues, though he suggested that in the future the Federal Reserve System might give consideration to making purchases for its own account rather than for various Treasury accounts in easing off the market at times of violent breaks, with the thought that readjustments of maturities might perhaps be made later through purchases by the Treasury for its investment accounts from the Federal reserve banks.

The meeting adjourned at 5:15 p. m.

W. Randolph Burgess,
Secretary.

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333.3-a-1
Final Minutes

MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
NOVEMBER 27, 1934.

11/27/34

The meeting was called to order at 10:40 a. m., in the offices of the Federal Reserve Board, the following being present:

Governors Young, Norris, Fancher, and Schaller, and Deputy Governor Burgess.

Governor Black was also present.

In the absence of Governor Harrison, Governor Fancher was elected chairman pro tem.

The report of operations was distributed and reviewed, and there was a preliminary discussion of the problems presented by December 15 financing.

At 11 o'clock the committee left the offices of the Federal Reserve Board and met with the Secretary and Under Secretary of the Treasury at the Treasury Department, Governor Eccles also being present. There ensued an extended discussion of the problem of Treasury financing in December, and various proposals were explored. At 12:45 the meeting left the Secretary's office and met briefly with the Under Secretary in his office where the discussion was continued.

The meeting adjourned at 1:10.

The meeting reconvened at 2:00 in the offices of the Federal Reserve Board, there being present the above mentioned members of the executive committee.

After discussion of the position which the Federal Reserve Banks should take with respect to December 15 operations, the committee

VOTED to telegraph all members of the Federal Open Market Committee requesting approval for exchanging the maturing issues in System Account either by exchange subscription or by operations in the market, the policy of the committee in carrying out exchanges to be determined by the needs of the market as related to the Treasury program and the maintenance of a proper distribution of securities in the System Account.

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The committee also

VOTED to request approval for effecting exchanges between maturities in the System Account up to a total of \$100,000,000 if it appears desirable in furtherance of the purposes noted above, with the understanding that there would be no increase in the total portfolio other than a temporary one.

There then ensued a discussion of the disposition of the reserves of \$4,112,611 set up by the Federal reserve banks at the close of 1933 against depreciation in government securities in System Account, and the disposition of \$6,600,000 of realized profits on sales of government securities during 1934 now held in suspense account. In view of the very large holdings of government securities in the Federal Reserve System, many of which are entered on the books at relatively high prices, and in view of the possibility at some time of losses on sales of government securities, the committee

VOTED That if a satisfactory accounting procedure could be arranged it did not favor distribution to the different Reserve banks of profits realized on sales of government securities this year, and now held in suspense account, and that it favored continuing as reserves the amounts set aside at the end of 1933 as reserves against depreciation.

At 2:45 Governor Black and Under Secretary Coolidge and later Governor Eccles entered the meeting and there ensued a further discussion of the Treasury financing program.

At 3:30 those present, with the exception of Governor Norris, adjourned to the Treasury Department where discussions of Treasury financing problems were continued with Secretary Morgenthau.

At 4:15 the committee returned to the Federal Reserve Board offices and the members of the committee discussed informally with Dr. Goldenweiser and Mr. Stark the program of the System committee on legislation.

The meeting adjourned at 4:45 p. m.

W. Randolph Burgess,
Secretary.

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MINUTES OF MEETING OF
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
September 21, 1934.

333.3-a-1
Final Minutes
9/21/34

The meeting was called to order at 10:45 o'clock a. m., the following being present:

Governor Harrison, chairman, Governors Young, Norris, Fancher, Black, Schaller, Martin, **Geery**, Hamilton, McKinney, Calkins and Deputy Governors Peple and Rounds, acting secretary.

The secretary's report of operations was distributed and ordered filed.

The preliminary memorandum was also distributed. The chairman discussed this memorandum with reference to the bond market and particularly to the government bond market, pointing out that the immediate problem was to determine how the Treasury and the Federal Reserve System can best cooperate to assure sources of government financing. In this connection the desirability of selling early maturities now held in the open market account up to possibly \$50 millions, and buying in replacement thereof called 4ths which would then be exchanged for 4 year notes, was discussed. The chairman reported that Undersecretary Coolidge had already requested the Federal Reserve Bank of New York to purchase this morning called 4ths for Treasury account, and had suggested that it would be helpful if the system open market account would make the exchange suggested above with informal understanding that the Treasury would take back the 4 year notes the following week in exchange for some shorter maturities. Following discussion it was

VOTED to authorize the Executive Committee, if advisable, to sell up to \$50 millions of short maturities and to buy a like amount of called 4ths, it being understood that the called 4ths purchased would be exchanged for 4 year notes.

It was understood also that the Executive Committee was authorized in its discretion to negotiate with the Treasury for the subsequent exchange of the 4 year notes for shorter maturities held by the Treasury in various investment accounts.

Trans letter 12/4/34 filed 333.3-a-1
+ 11/30/34

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Governor Martin entered the meeting at this point.

The chairman raised the question as to whether the practice of all reserve banks was uniform with respect to the granting of loans secured by government obligations. A poll of those present indicated that all reserve banks were now lending the full par value, although two of the banks had a rule limiting such loans to an amount less than par if and when the bonds dropped a certain number of points below par. The chairman stated that he had raised the question because of the possibility that the Treasury might ask the Federal reserve banks concerning their practice in this regard, and also in view of the possibility that it might be suggested that a public announcement to this effect be made. Discussion of the question indicated general agreement with the present policy of lending at par, but considerable question as to the wisdom of making any public announcement partly because of the commitment involved in so doing, and partly because of the danger of its being interpreted as an artificial effort to support the government market. Upon motion of Governor Calkins it was

VOTED that it be the policy of all Federal Reserve Banks under present conditions to lend to member banks up to the par value upon the security of obligations of the government, it being understood that no publicity would be given it since this action did not reflect any material change in policy, which policy was already well understood by member banks, and it was believed that any public announcement might do more harm than good.

The chairman referred to discussion at a previous meeting regarding the possibility of the Treasury using part of the stabilization fund for the purpose of acquiring a part of the government bond portfolio of the reserve banks. Governor Norris pointed out that the Treasury has over \$2 billions cash balance at this time and in addition \$2,800 millions in the stabilization fund for which it had no present use, and in view of these large balances, he added, the Treasury might well reduce both its balances and its debt by buying up to \$2 billions of its

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obligations from the Federal reserve banks upon an agreement by the banks to purchase a like amount in new securities from the Treasury upon request any time prior to December 31, 1936. He pointed out the effect this operation would have upon the current earnings of the Federal Reserve System. He suggested that the profit upon the bonds sold to the Treasury offset this loss of current income.

Governor Black suggested that the System should offer to take from the Treasury additional securities as needed provided the Treasury would agree to buy from the System a like amount within a specified time. There was some doubt whether the Treasury could or should make any such contract of repurchase. There followed considerable discussion concerning the merit of the Reserve System in effect underwriting the government's credit by a definite offer to take whatever might be necessary of Treasury issues. While it was generally agreed that the System should under present conditions do all it properly can to assist the Treasury in its financing program it would not be advisable from the point of view of the Treasury or the System to make any offer which might be construed as equivalent to an offer to underwrite financing of the Treasury deficit.

After discussion Governor Black offered the following resolutions; which, upon motion duly made and seconded, was adopted:

That it is the sense of the conference that the Federal Reserve System is deeply interested in the present, as in the past, financing of the Treasury, and instructs the chairman of the Federal Open Market Committee to convey to the Secretary of the Treasury the Reserve System's interest, and to advise the Secretary of the Treasury that the System will continue its active aid in this financing and will be pleased to consider such suggestions as may be made for further cooperation.

The meeting adjourned for lunch.

Afternoon Session

Undersecretary Coolidge attended the afternoon session for a brief period.

He stated that the Secretary would very much appreciate the System's offer for

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Authority *EX Order 12856*

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cooperation in the financing of the current issue and added that as a matter of fact the System had through the Federal Open Market Committee cooperated fully in the past, and he did not himself see any way in which greater cooperation could be given at the moment. He reported concerning the current offering and added that while it was impossible to estimate at this time with respect to the December financing, it was expected that the Treasury would run into December with large balances which it was believed would reduce somewhat the amount of the offering to be made at that time.

The Chairman reported to Undersecretary Coolidge that the conference had been wondering what, if anything, the Reserve System could do to allay fear which seems present in places regarding the government bond market. Mr. Coolidge said he could think of no way or of nothing that the System could do that would be helpful more than it has already done.

The meeting adjourned at 3 o'clock p. m.

R. Leslie Rounds,
Acting Secretary.

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FEB 28 1934
333-3-a-1

MINUTES OF THE MEETING OF THE
SYSTEM COMMITTEE ON THE RECOVERY PROGRAM
WASHINGTON, D. C., SEPTEMBER 6 AND 7, 1934

*Final Minutes
9/6/34*

The meeting was called to order at 10:50 a. m., there being present:

Governor Harrison, chairman, and Governors Thomas, Young,
Fancher, Schaller,
Deputy Governors Hutt and Burgess, secretary, and
Messrs. Goldenweiser and Williams.

There was first a discussion of the organization of the committee, and
it was voted that Governor Harrison should continue to act as chairman and Mr.
Burgess as secretary.

Question was raised as to the relationship between this committee and
the committee of Federal Reserve Agents for the study of legislative suggestions,
consisting of Messrs. Peyton, Newton, and Williams, and Mr. Stephens, ex officio.
It was generally agreed that some plan should be worked out for cooperation be-
tween the two groups, and Governor Harrison was asked to discuss the question
with Governor Thomas.

Governor Black entered the meeting at this point.

Governor Harrison reviewed previous discussions as to the most effective
means for considering banking legislation, and called attention to the unanimous
agreement of the joint conference in June that the President should be asked to
appoint a commission for the study of banking legislation.

Governor Black suggested that the desirability of that procedure hinged
on the character of commission which might be appointed, and expressed doubt
whether in practice a commission could be assured qualified to deal understandingly
with the Federal Reserve System. After some further discussion no action was
taken on this question.

*Trans letter 12/4/34 filed 333: 3-a-1
Final Minutes*

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Governor Black and Governor Thomas both commented on the desirability for more widespread public and particularly congressional information with respect to the operations of the Federal Reserve System. It was generally agreed that whatever report the committee might make should be directed in part at least toward this end, and should include some review of the purposes and accomplishments of the Federal Reserve System.

Dr. Goldenweiser reported as to what research workers might be available to assist the committee in its work, and after discussion it was moved and carried that Mr. W. R. Stark be employed on a month to month basis by the committee, his salary to be subject to the approval of the Federal Reserve Board.

Dr. Williams suggested that it was of importance to determine what the emphasis should be in the study. An historical defence of the System would necessarily be highly controversial. A discussion centered upon the structure of the banking system could include a review of the System's experience with least danger of controversy, would attack the real point of weakness, and lead to constructive conclusions.

It was agreed that the committee and its investigators should cooperate as closely as possible with the Treasury study on banking headed by Professor Jacob Viner.

The meeting adjourned at 12 noon.

At 2:45 p. m. the meeting reconvened, there being present:

Governor Harrison, chairman, and Governors Thomas, Black, Young, Fancher, and Schaller,
Deputy Governors Burgess and Hutt, and
Messrs. Goldenweiser and Williams.

There was further discussion of the character of the proposed report, and question was raised as to the audience to which the report should be addressed. It was agreed that the report should be written in simple language, should be brief, and should be of such character that it might be addressed to

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the President, the Secretary of the Treasury, or Congress. It was suggested that it should be in effect a report and recommendation on the banking structure of the United States made by the Federal Reserve System.

There then ensued an informal discussion of the outline of topics which Dr. Goldenweiser had submitted for the consideration of the committee. This outline is attached to these minutes. The discussion which was wholly preliminary covered the following points.

✓ (1) Whether the prestige of the System might be strengthened by leaving bankers off the boards of directors of the Federal reserve banks.

(2) What changes might be made in the composition of the Federal Reserve Board. Upon this point it was agreed that the various suggestions which have been made should be assembled and scrutinized.

(3) Whether the governors of the Reserve banks should be members of the boards of directors.

(4) Whether the examination function, if it were undertaken by the Federal Reserve System, should be centralized in Washington or decentralized in the several reserve districts. Decentralization of supervision and of the insurance of deposits might answer one of the criticisms to unified banking, namely, that it would tend toward bureaucracy and undue centralization.

(5) Whether the Federal Advisory Council should be partly composed of business men, and whether if the Council is to function more vigorously it should not have a larger executive staff. The opinion was expressed by some that the Council should be abolished.

(6) Whether the open market committee, acting with the Federal Reserve Board, did not in effect constitute the nearest approach in this country to a central bank so far as credit policies are concerned.

(7) Whether the capital stock of the reserve banks should continue to be owned wholly by the member banks, or be otherwise distributed. The general feeling was that stock ownership by the banks had proved desirable.

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(8) In connection with the question of personnel it was pointed out that uncertainties as to the future of the System increased the difficulty of getting the best personnel.

(9) The relationship between getting the best men for directors of the Reserve banks and the relative balance of responsibility between Washington and the banks was discussed.

(10) The general question of the relation of the central banking function to the government was discussed. In this connection two separate movements were noted, a movement to make the bank of issue a Treasury bank, and another movement to make it an independent government body.

(11) Whether there should not be some regular arrangement for a form of franchise tax by which some payment should be made to the Treasury at times when the Reserve System has surplus earnings.

(12) Whether the new reserve requirements plan should be further recommended by this committee.

(13) Whether the old eligibility requirements have not been outgrown, and whether the provision for 10b loans should not be made permanent.

(14) The general question whether the function of a bank of issue is of such character that general rules may be laid down for its operation.

The meeting adjourned at 5:30 p. m. to reconvene at 9:30 a. m. the following morning.

The meeting reconvened on Friday morning, September 7, at 9:30 a. m., there being present:

Governor Harrison, chairman, and Governors Thomas, Schaller, Deputy Governor Hutt, and Messrs. Goldenweiser and Williams.

Governor Harrison reported that he had discussed with Secretary Morgenthau the activities of the System committee with respect to the proposed stock taking report, and Secretary Morgenthau expressed a desire to cooperate and was entirely agreeable to the committee's employing Mr. Stark, whose resignation from the Treasury is to take effect September 15.

It was suggested and agreed that for the present the activities of the committee be given no publicity.

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The meeting was interrupted at this point for the holding of a brief meeting of the Executive Committee of the Federal Open Market Committee but reconvened shortly as the Committee on Recovery Program.

It was agreed that the unification of the banking system was the central problem of the committee and might require the appointment of a sub-committee.

With respect to the insurance of deposits it was suggested that if the bank examinations are decentralized by reserve districts deposit insurance should be organized on the same regional basis.

At this point Governor Black entered the meeting.

Dr. Goldenweiser suggested that deposit insurance funds should be used to prevent bank closings rather than to pay off deposits after closings.

It was agreed that insurance of deposits, branch banking, and unified banking were all parts of a single problem.

There ensued a general discussion of branch and chain banking, at the conclusion of which it was agreed that each member of the committee should write out his ideas on the subject and submit them to the chairman, and that this procedure would probably be better than the appointment of a sub-committee at this time.

It was agreed that for the present it would be well for the committee to avoid discussion of monetary policy in the proposed report.

There ensued a discussion of publicity and public relations, in which the importance of such work was emphasized. Governor Black and Governor Thomas both spoke strongly in favor of more adequate publicity. Question was raised whether the Reserve System should have some form of publicity bureau.

It was agreed that a meeting of the Governors Conference and the Open Market Committee should be called in the near future, which would discuss the problem of publicity, industrial loans, etc.

The meeting adjourned at 11:15 a. m.

W. RANDOLPH BURGESS,
Secretary.

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MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.
AUGUST 8, 1934

333.3-a-1
Final Minutes
8/8/34

There were present for the meeting

Governor Harrison, chairman, Governors Norris, Fancher, and Schaller, and Deputy Governor Burgess, secretary.

At 10:45 a. m., the committee met with the Federal Reserve Board, there being present

From the Federal Reserve Board
Governor Black, Messrs. Miller, Hamlin, and Thomas,

Undersecretary Coolidge,

From the Board staff
Messrs. Morrill, Wyatt, Goldenweiser, Martin and Jones.

Governor Harrison reported upon his recent trip abroad, ^{*informally*} the meeting having been called at his request for that purpose.

At 12:00 o'clock the committee adjourned from the Board offices to the Treasury and, in company with Governor Black, met with Secretary Morgenthau, who discussed with them informally the method of handling silver certificates to be issued against purchases of silver by the Treasury. The Secretary stated that his present plan was to issue up to \$100,000,000 of silver certificates, and he trusted the Reserve banks would cooperate by receiving and paying out these silver certificates in the normal course of business.

There was some discussion of the method by which these certificates should be distributed, and it was agreed that further consideration would be given by the individual members of the committee.

There was also discussion of the method of dealing with any shortage of tenders for the \$150,000,000 of bonds of the Home Owners Loan Corporation being offered that afternoon.

The meeting adjourned at one o'clock.

Trans letter 10/2/34 filed 333.3-a-1

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The meeting reconvened at 2:15 p. m. in the offices of the Federal Reserve Board with Governor Black. Governor Harrison referred to the fact that at the last joint conference in June the members of the Executive Committee of the Federal Open Market Committee had been asked to serve as a continuing committee to study ways and means of aiding the recovery program, as well as to study necessary changes in the banking system. It was recognized that there was probably little specific action, other than what has already been taken by the Federal Reserve System to aid directly in recovery, except through the extension of industrial loans under the Act of June 19, 1934. In this connection, reference was made to the fact that commercial bankers are reported to be hesitant to participate in these 5-year industrial loans for fear that such loans will be criticized by bank examiners. Governors Harrison and Fancher were appointed a committee to discuss this question with the Secretary of the Treasury.

There ensued a discussion of plans for studies of changes in the banking system. It was agreed that in order to conduct such studies it would be desirable to place the responsibility on a small group of workers ^{who would be detached from their regular duties for that purpose} and it was agreed that Dr. Goldenweiser and Dr. John Williams should be designated to that work and that they should associate with themselves Mr. Walter Stewart if he were available and, if not, that some other outsider should be considered. Governor Black indicated that he would like to add to the committee of governors for the purpose of these studies a member of the Federal Reserve Board, in order that the Board might have representation on the committee. It was felt that this would be advisable.

The Secretary's report of operations was distributed and considered. There ensued a discussion of the disposition of profits on securities sold and those present agreed that it would be desirable to use realized profits to write

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down the book value of government security holdings rather than to distribute them as income. It was recognized that this procedure involved a number of accounting problems which should be given careful study before the end of the year.

Governor Black reported that the directors of the Federal Reserve Bank of Atlanta had expressed a desire to discontinue the Havana Agency, and reported that both representatives of the State Department and the principal banks having branches in Cuba had expressed themselves as opposed to the discontinuance of the Agency. Governor Black pointed out that the law provided that the Board can require any bank to establish a foreign agency. He raised the question whether some means could be devised by which the expenses and risk of maintaining the agency could be distributed among the twelve Federal reserve banks rather than having it all fall upon the Atlanta bank. Governor Harrison suggested that consideration should be given to the possibility of using one or more of the commercial banks having branches in Havana as agencies of the System.

The meeting adjourned at 3:15 p. m.

W. Randolph Burgess
Secretary.

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333.3-a-1
Final Minutes
6/26/34

CONFIDENTIAL

MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE
HELD AT
WASHINGTON, D. C., JUNE 26, 1934

The meeting was called to order at 12:45 p. m., there being present:

Governor Harrison, chairman, Governors Young, Norris,
Fancher, Seay, Schaller, Martin, Geery, Hamilton,
McKinney and Calkins, and Acting Governor Johns.

X
The chairman reported that at the last meeting of the executive committee, held in Washington on May 23, there had been some discussion with the Secretary of the Treasury with respect to the possible utilization of the stabilization fund for the purchase of government securities in the open market. At that time the executive committee had expressed doubt as to the wisdom of such purchases, and the Secretary of the Treasury had advised the committee that he would make no further purchases of government securities out of that fund at least until after June 15. The chairman reported that last week (June 20) the Secretary had advised him that the Treasury Department had no present intention of using the stabilization fund for the purchase of government securities, and that in no event would that fund be used for that purpose in the future without first advising the Chairman of the Federal Open Market Committee and giving him an opportunity to express the Committee's views on the subject.

The chairman then referred to discussions which have taken place from time to time in the past about the possible sale of government securities out of the System account to the Treasury, payment to be made out of the stabilization fund, and stated that on June 20 he had discussed the matter more formally with Treasury officials who expressed considerable interest in the possibility of purchasing up to \$500 million of the System's longer maturities, but felt that in view of the fact that conditions in the government security market are now most satisfactory and in view of the Secretary's prospective absence until August 1, further consideration of the matter should be postponed until his return in August.

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The chairman pointed out that in view of the likelihood that we would not have another meeting of the full committee prior to August, it might be appropriate to consider giving the executive committee some authority in the matter. After discussion it was unanimously

VOTED that subject to the approval of Federal Reserve Board the executive committee be authorized to sell up to \$500 million of the System's holdings of government securities to the Treasury, if and when it seems desirable, it being preferred that any securities so sold should be of the longer maturities.

In the course of the discussion of this matter it was pointed out that in determining the amount of any securities so sold to the Treasury, the earning position of the System should be taken into account, and that the position of individual reserve banks might have to be protected by the usual transfers within the System. Any profits from the sale of securities would be allotted among the Federal reserve banks in the usual proportions.

Governor Harrison reported that with the approval of the Federal Reserve Board, he was planning to sail for Europe the end of June to be at Basle during a meeting of the directors of the Bank for International Settlements at Basle on July 9, that he would probably visit Paris and London after that meeting, and expected to be home before the end of July.

The meeting adjourned at 1:30 p. m.

George L. Harrison,
Chairman.

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333.3-a-1
Final Minutes
5/23/34

CONFIDENTIAL

MINUTES OF THE MEETING OF EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.,
MAY 23, 1934

The meeting was called to order at 10:15 a. m., the following being present:

Governor Harrison, chairman, Governors Young, Norris, and Schaller and Deputy Governor Burgess, secretary.

Governor Black was also present.

The secretary presented a report of operations which was carefully reviewed. There ensued a discussion of the proper balance of maturities in the System account. [Attention was called to the reduction in yield on the securities in the account and the need of some of the Reserve banks for additional earnings. There was discussion as to whether some shift into longer maturities might exert a wholesome influence toward a reduction in the long term rate of interest. Question was also raised whether there was a possibility of a purchase of government securities from the Federal Reserve System by the Treasury for the account of the stabilization fund. These questions were discussed wholly tentatively without any conclusion being reached.

At 12:20 Secretary Morgenthau, Under Secretary Coolidge, Dr. Viner, and Mr. Bell, joined the meeting. There ensued an extended informal discussion with regard to Treasury financing on June 15.

The meeting adjourned at 1:30 p. m.

W. Randolph Burgess,
Secretary.

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Authority *Ex Order 12256*

333.3-a-1
Final Minutes
4/2/34

CONFIDENTIAL

MINUTES OF THE MEETING OF EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT WASHINGTON, D. C.,
APRIL 2, 1934

The meeting was called to order at 10:35 a. m., there being present:

Governor Harrison, chairman, Governors Young, Norris, and Schaller,
and Deputy Governor Burgess, secretary.

From the Federal Reserve Board
Governor Black

From the Treasury
Secretary Morgenthau, and Messrs. Smith, Coolidge, Bell,
Stark, and Lanston.

The Secretary of the Treasury presented the Treasury problem of financing to be carried through in April, and there ensued a general discussion of the questions of the amount of money to be raised, type of securities to be offered, and the program to be followed with respect to calling a portion of Fourth 4 1/4% Liberty Loan Bonds.

At 12:40 this meeting adjourned, and the committee reconvened without the Treasury representatives, though Secretary Morgenthau, Mr. Coolidge, and Mr. Smith were later present during a part of the meeting.

The report of operations and the preliminary memorandum were distributed to those present and were discussed.

Governor Harrison

It was pointed out that the System held \$59,000,000 Fourth 4 1/4% bonds which were called for redemption on April 15, and also held \$57,000,000 of 3% Treasury notes maturing May 2, and that in case the Treasury made an exchange offering on April 15 for these two issues a decision would have to be reached as to the extent to which the System would exchange its maturing issues for the new offering.

Trans letter 5/14/34 filed 333.3-a-1

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Authority *Ex Order 12956*

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The intimation having been given that the new issue would probably be of ten-twelve year bonds, there was recognition of the fact that a twelve-year maturity was rather long for Reserve Bank purchase, and that the inclusion of such bonds in the System portfolio would be at variance with previous policy. Governor Harrison suggested, however, that as the System has cooperated so closely with the government in its program of financing it should be careful now to avoid any action which might impede or unnecessarily give the impression of impeding Treasury undertakings. Any attempt by the System suddenly to sell its maturities on a large scale and replace them with shorter obligations might interfere with the success of the Treasury refunding issue. Furthermore, the System has a responsibility for the long term money market, upon the revival of which the return of business prosperity depends in considerable measure.

This sentence is new

Governor Harrison

In the course of discussion it was also pointed out that the earnings problem was likely to be increasingly important for the Reserve banks, and some block of bonds with a good yield might be desirable from that point of view. It appeared that for some time to come the Reserve banks would be dependent for earnings on the yield from their government holdings, which was steadily declining. The System was moreover likely to hold a substantial amount of governments for some time to come, some relatively small part of which might both safely and profitably be composed of longer time higher yield securities.

After extended discussion it was agreed by all those present that in connection with the April 15 financing the System should follow the same procedure that was followed on March 15; that is, if favorable opportunity arises, either in the market or with the Treasury itself, maturing issues should be sold and replaced with short governments to the extent that this can be done without disturbance to the market; and that the balance of the maturities not so disposed of should be offered in exchange for the new Treasury issue.

There ensued a general discussion of pending legislation.

The meeting adjourned at 2:00 p. m.

W. Randolph Burgess,
Secretary.

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Mr. Morrill: *W Carpenter*

Note changes from preliminary draft.
Believe new sentence on page 2 should be
brought to Governor Black's attention.

AA
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Governor Black for initial.

Please note particularly new sentence at top
of page 2 of minutes.
Return to Mr. Carpenter.

Please initial *GMB*

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MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE

3/5/34

HELD AT

WASHINGTON, D. C., MARCH 5, 1934

The meeting was called to order at 4:00 p. m., there being present;

Governors Young, Norris, Seay, Schaller, Martin, Geery,
 Hamilton, McKinney, and Calkins,
 Acting Governor Johns, and
 Deputy Governors Fleming and Burgess, secretary.

In the absence of Governor Harrison, Governor Calkins was elected chairman pro tem.

The preliminary memorandum and report of the operations were distributed.

There ensued a discussion of the maturities of securities held in the System Account. It was pointed out that approximately \$150,000,000 of the holdings would mature on March 15, and that at that time the Treasury would probably issue in exchange a Treasury note of several years' maturity.* // It was further pointed out that in view of the scarcity of short term Treasury obligations available in the market it would be very difficult to replace any considerable amount of the maturity with short term securities from the market without disturbing the market and forcing rates very low. // *(The question was therefore raised whether the System should be prepared to reduce its holdings of nearby maturities by exchanging the maturing issue for the new notes. It was noted in this connection that nearby holdings had been ^{were} built up to an unusually large figure in view of the uncertainties of the recent period.) In the course of this discussion the opinion was expressed by a number of those present that the exchange suggested should not be considered a precedent to be followed so far as to reduce below a round amount the nearby maturities in the account. It was agreed that it would be desirable to continue to maintain a large amount of very short issues, so as to be prepared

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to dispose of securities rapidly if the occasion should arise. In view of market conditions and with the understanding that no precedent was created it was then

VOTED to convert the whole or any part, as might be determined by the executive committee, of the \$150,000,000 of March maturities into any new note offering which might be offered by the Treasury.

It was then pointed out that the System held \$59,000,000 of Fourth 4 1/4 Liberty bonds which had been called for redemption on April 15 next, and in view of the possibility that a bond issue might be offered by the Treasury in replacement of these maturing bonds the System's policy with respect to maintaining its bond holdings might be considered. After discussion it was

VOTED that the executive committee be given authority to replace the whole or any part of the Fourth 4 1/4s called for redemption on April 15 with securities of such maturities as the committee may determine.

The secretary reported that, in view of considerable difficulty that was being experienced in replacing current maturities of Treasury bills with short obligations, the executive committee had agreed when necessary to replace a small portion of the maturities with longer term issues.

In view of the fact that the amount of holdings in the System Account had not been changed for some weeks and in view of the very large and increasing excess of reserves of member banks question was raised as to continuation of authority for purchases remaining in the hands of the executive committee, and after consideration it was

VOTED that the authorization to the executive committee for the purchase of government securities, renewed last on October 10, be reduced to \$100,000,000.

The meeting adjourned at 5:00 p. m.

W. Randolph Burgess,
Secretary.

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10/25/33

MINUTES OF THE MEETING OF EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT
FEDERAL RESERVE BANK OF NEW YORK, OCTOBER 25, 1933.

The meeting was called to order at 10:30, there being present:

Governor Harrison, chairman, Governors Young, Norris, and Fancher,
and Deputy Governors McKay and Burgess, secretary.

Governor Harrison reported on recent developments with respect to the
financial program of the administration, including the plan for purchases of gold.

There ensued a discussion of the program of purchases of government
securities, and the question was raised whether it would be desirable to stop
purchases at once. The point was made that to do so would involve an abandonment
of a program of gradual reduction of purchases which had been carefully outlined
at the meeting of the Federal Open Market Committee in Washington on October 10,
1933. A further objection lay in the probable depressing effect on the bond
market of a sudden interruption of security purchases at a time when the bond
market was already adversely affected by recent developments.

After discussion it was generally agreed that the policy of gradually
diminishing purchases should be followed, and it was moved and carried that dur-
ing the coming statement week purchases of up to \$18,000,000 should be made
unless subsequent developments make it appear inadvisable. Mr. McKay voted in
the negative.

There was a discussion of the question of allotment of securities be-
tween Federal reserve banks, and it was agreed for the current statement week
and for the coming week to continue to base allotments on the percentage of each
bank's total reserves to the total reserves of the System. Mr. McKay stated that
the Chicago bank, by reason of the action of its executive committee, was not in

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a position to participate for more than 12%. It was agreed that other banks should be offered such amount of Chicago's participation as that bank did not take.

The question was then raised concerning the policy which should be followed with respect to the conversion of approximately \$84,000,000 Fourth 4 1/4% Liberty Bonds in System account which had been called for redemption next April 15. It was suggested that, generally speaking, any considerable holding of long term bonds was a violation of the principle of central banking. It was emphasized, however, quite apart from the desirability of cooperating in every way with the Government, that with their present large holdings the Reserve banks had a practical selfish consideration in the status of the government security market, and that the value of the holdings might be seriously affected by any failure of the conversion plan.

After extended discussion the following motion was passed, to be submitted to all members of the Federal Open Market Committee for their concurrence:

Voted to request the members of the open market committee to give the executive committee authority to offer for conversion all or such part of the called Fourth 4 1/4% bonds in the System portfolio as may in the judgment of the committee seem advisable from time to time in the light of all the circumstances.

The meeting adjourned at 12:55 p. m.

W. Randolph Burgess

Secretary

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MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE

10/10/33

HELD AT WASHINGTON, D. C., TUESDAY, OCTOBER 10, 1933.

The meeting was called to order at 3 p. m., there being present:

From the Federal Reserve Board
Governor Black, and Messrs. Hamlin, Miller, James,
Thomas and Szymczak.

From the Federal reserve banks
Governor Harrison, chairman, and Governors Young,
Norris, Fancher, Martin, Geery, Hamilton, McKinney,
and Calkins,
Acting Governor Johns, and Deputy Governors Peple
and McKay.

From the Federal Reserve Board Staff
Messrs. Morrill and Martin.

✓ Governor Harrison outlined to the conference briefly the discussion which took place at the meeting of the executive committee in New York on September 21, at which time, he pointed out, the committee agreed that there was then little, if any, necessity for the further purchase of government securities from the point of view of the present credit and banking position alone. He referred to the fact that money rates in the principal centers are the lowest of any time in their history; that the borrowings of member banks are lower than at any time since 1917; that excess reserves are now at their highest level, about 800,000,000; and that in these circumstances it might well be argued that further purchases of government securities are no longer required as a means of pressure towards expansion of credit. The question for the conference to decide, therefore, was whether under these conditions there were other reasons, apart from the ordinary central bank objectives, for continuing open market purchases, and if so, in what amounts or at what rate.

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Governor Black expressed the view that open market operations to date had no doubt been effective, as Governor Harrison had stated, in making for great ease in the credit position, and that they had also been a most important factor to date in minimizing the pressure for more drastic inflation; that all things considered, he thought it would be advisable to continue open market operations lest a cessation now might sooner or later force radical steps.

Mr. Miller questioned whether there was any real risk in further purchases of government securities, and expressed the opinion that we should continue them for a while at least. The only real question in his mind was at what rate they should be made, that is, whether at the same or a lower rate.

√ [Mr. James felt that there was little that could be done that would be of effect until the various functions of the government were co-ordinated in repairing the banking position, and that we must also find ways of affording a compensatory return for money. In this connection, Governor Young expressed the view that it is possible to get money rates so low as to be a deterrent to its use. But apart from that, Governor Young said that in the present state of affairs, and possibly for political reasons, it might be advisable for a time to continue to buy securities but at as low a rate as is possible without precipitating other difficulties.]

Governor Hamilton stated that most commercial banks are suffering from a loss of earnings. He felt that the program for the issue of capital stock to the Reconstruction Finance Corporation was an excellent idea, but it was difficult for him to see how the banks could use the money thus obtained.

Governor Young reiterated his belief that having commenced the program of open market purchases it might be harmful to stop entirely just now, but that we should ease off in our purchases, if possible, beginning this week. Governor Harrison questioned whether this particular week was a good week to begin reductions if only because of the possibly bad repercussion on the new Treasury issue

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to be announced on Thursday.

Governor Martin stated that while he felt that we should continue the program for the time being, nevertheless we must keep more and more in mind the necessity for giving banks an opportunity to make some earnings.

Governor Norris remarked that we have well over two billion dollars of government securities, which form over 95% of the assets of the Federal reserve banks. He also mentioned the fact that money rates are now so low that many banks have no incentive to make loans since many loans at present rates involve a risk with but little return. Furthermore he is of the opinion that the majority of the American public is against inflation and for sound money. In this connection he felt that the opinions expressed by the American Federation of Labor and the American Legion are significant, and that it is possible that the talk of inflation is more noisy than real. On the whole, however, he felt that we should be prepared to buy government securities for a few weeks or months longer, if necessary, pending the formation of a monetary policy, although if continued too long the only effect of them will be to weaken the banking structure of the country by reducing rates to a point which will yield little return to the banks and deter them from making loans. He called attention to the fact that increased employment depends in large part now on a revival of the heavy goods industries which in turn depend upon reopening of the capital markets.

Mr. McKay stated that the Federal Reserve Bank of Chicago has participated in the program thus far reluctantly, and that the directors seeing no great good resulting from the program, felt that there was no need now to continue. He said, therefore, that his directors preferred not to proceed any further unless directly requested to do so under the terms of the Thomas amendment.

Governor Fancher said there was some question in his mind as to the advisability of changing the System policy at the moment although he favored doing so as soon as possible.

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Mr. Hamlin concurred with the views of Governor Black and Mr. Szymczak who felt that we should continue the program at least until January 1. Mr. Thomas favored a continuation of the policy inasmuch as he feared that stopping purchases would be construed as a signal for deflation. Psychology, he said, is the largest part of the problem. He would, therefore, prefer to see purchases increased rather than reduced.

At 5 p. m. the Federal Reserve Board withdrew from the meeting and the Federal Open Market Committee continued its discussion.

Governor Harrison presented to the conference the preliminary memorandum as well as the Secretary's report of open market operations since the last meeting. Both were considered and ordered placed on file.

After further discussion of the arguments in favor of and against further purchases of government securities it was voted unanimously that the minutes of the meeting of the executive committee held in New York on September 21 be approved and ratified.

It was then unanimously voted that subject to the approval of the Federal Reserve Board, the authority granted to the executive committee at the meeting of the Open Market Policy Conference on April 22, as amended, to purchase up to \$1,000,000,000 of government securities be continued and reaffirmed for the unused portion of the authority.

During the discussion of this resolution it appeared to be the opinion of all those present that from the point of view of the present credit and banking position alone, there was little, if any, necessity for further purchases of government securities, and that, therefore, it would seem to be advisable in the present circumstances gradually to reduce the rate of purchases as soon as and to the extent that it is possible to do so without adverse effect upon the government's program of recovery. It was recognized, however, that in view of existing uncertainties and the possibility of the development of new conditions or policies

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that cannot now be foreseen, the executive committee should be free, pending another meeting of the Federal Open Market Committee, to use its discretion as circumstances dictate.

At this point the executive committee took up for consideration the question of the amount of purchases for the current statement week, and it was voted that \$35,000,000 should be bought. Mr. McKay voted in the negative and stated that in view of the action taken by his directors it would be impossible for the Chicago bank to participate in these purchases; whereupon all the other Governors present said that they would recommend that their banks take their pro rata share of the purchases which otherwise would have been allocated to the Chicago bank.

The meeting adjourned at 6:30 p. m.

The meeting of the Federal Open Market Committee reconvened Thursday, October 12, 1933, at 11:15 a. m., there being present:

From the Federal reserve banks
Governor Harrison, chairman, and Governors Young,
Norris, Fancher, Martin, Geery, Hamilton, McKinney,
and Calkins,
Acting Governor Johns, and Deputy Governors Peple
and McKay.

Governor Harrison stated that in view of the discussion which had taken place in the past two days about the effectiveness of further open market operations under present conditions, he thought it would be helpful if the conference would formally express its views to the Federal Reserve Board regarding the usual objectives of open market operations, reviewing what had been accomplished thus far toward improving the banking position of the country and in creating a credit position which would make possible an expansion of both short time and long time credit as soon as there might be need or demand for it, and pointing out the deterrents to the desired expansion of credit in present circumstances. After further considerable discussion, the following resolution was unanimously adopted as an expression of the views of the committee:

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

("The System's holdings of government securities now amount to the unprecedented sum of \$2,344,000,000, more than ten per cent of the Federal debt. Excess reserves of member banks are now nearly \$800,000,000, member bank indebtedness to the Reserve banks has been reduced to the smallest figure since August, 1917, and short time money rates have been forced down to the lowest level in our history. When to these facts it is added that the volume of currency outstanding is approximately \$5,600,000,000, far in excess of that outstanding in 1929, and that bank reserves are greater than at any previous time in our history, it would seem that our monetary problem today is not so much one of correcting a deficiency in the supply of basic money, whether by Federal Reserve credit or by government currency, as of achieving an effective use and turnover of the already existing supply.)

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

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

("Not only has there been no expansion in the volume of short term bank credit, but the desired pressure of funds into longer uses in the capital goods industries seems to be blocked by lack of confidence in the future position of the dollar and uncertainty with respect to monetary policy in general, and also by the liabilities imposed by the Securities Act of 1933 and the Banking Act of 1933. The capital issues market remains completely stagnant; and coupled with this fact is the fact that the recovery in business from March to August, though unprecedented for extent in so short a period, revealed a serious lack of balance

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in the pronounced lagging of the capital goods industries, which are responsible for over 60 per cent of present unemployment. It is worthy of special mention, also, that during the recent recurrence of inflationary agitation the bond market lost one-third of its advance since March. The bearing of a declining bond market upon the condition of banks and upon the prospect for reviving the capital goods industries through the long time money market requires no elaboration.

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

The meeting then adjourned as a meeting of the Open Market Committee and after a brief meeting with the Federal Reserve Board as a Governors Conference reconvened as a meeting of the Open Market Committee with the Federal Reserve Board, the following being present in addition to the representatives of the Federal Reserve banks.

From the Federal Reserve Board
Governor Black, and Messrs. Hamlin, James, Thomas,
Szymczak, and O'Connor.

From the Federal Reserve Board staff
Messrs. Morrill and Carpenter,

Governor Harrison advised the Board of the action taken by the Federal Open Market Committee in voting unanimously that the authority granted to the executive committee to purchase up to \$1,000,000,000 of government securities be continued and reaffirmed for the unused portion of the authority, and he stated

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

Governor Harrison also informed the Board of the views set forth above which were expressed by the members of the Federal Open Market Committee during the discussion in their separate meeting of the Committee's action, and he read the memorandum of open market policy which had been adopted by the Committee as an expression of its opinion.

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

The meeting adjourned at 1:15 p. m.

George L. Harrison,
Chairman.

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9/21/33

MINUTES OF MEETING OF EXECUTIVE COMMITTEE OF THE
FEDERAL OPEN MARKET COMMITTEE
HELD AT
FEDERAL RESERVE BANK OF NEW YORK, SEPTEMBER 21, 1933

The meeting was called to order at 10:50 a. m., there being present:

Governor Harrison, chairman, Governors Young, Norris and Fancher, and Deputy Governors McKay and Burgess, secretary.

The report of operations and the preliminary memorandum on credit conditions were distributed and read.

Governor Harrison reviewed recent developments with respect to monetary policy, referring particularly to the relation between Federal reserve policy and the monetary policy of the Administration.

Governor Harrison read a memorandum regarding a conversation on September 16 with Governor Black concerning open market operations. The following paragraphs are quoted from this memorandum:

✓ "As I see the picture, I said, we now have, largely through open market operations and a return flow of currency, created approximately \$700,000,000 of excess reserves and a very easy money market position. Certainly from the point of view of the credit and banking situation there would appear to be no need for any further purchases of Government securities. Our operations to date, together with other factors, have resulted in placing the banks of the country as a whole in a position to make a very substantial expansion of bank credit as soon as there is a demand for it by borrowers entitled to have it on the basis of good credit risk. Consequently, further purchases of Government securities in the open market must be justified by factors outside the immediate banking and credit picture or, to put it differently, outside those matters specifically and immediately within the jurisdiction of the Federal reserve banks, as central banks.

"For some weeks now, under the authority granted by the Open Market Committee with the approval of the Federal Reserve Board in May the Executive Committee has been making weekly purchases partly because of the need for creating an easy banking position but in latter weeks largely because we

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have been informed by Governor Black, Secretary Woodin, Mr. Acheson, Mr. Sprague and others from Washington, that this is an important and advisable way for the Federal reserve banks to cooperate with the Government's program of recovery and an especially weighty factor in minimizing the risk of drastic methods of currency inflation, such as greenbacks. I explained to Governor Black, however, that I had some hesitation in recommending a continuance of open market operations for these reasons alone, unless I was definitely sure that his views as to the need for these purchases represented the views of the Federal Reserve Board as a whole. In other words, there being no clear cut need from the banking and credit position, I wanted to be sure that the Federal Reserve Board considers that a continuance of open market purchases are advisable or necessary as a contribution to the Governmental program of recovery and also as a substantial means of minimizing the risk of greenbacks.

"Governor Black said he understood my position perfectly; that he agreed with it entirely; and that I was quite right in assuming that the Federal Reserve Board, as well as he, felt that it is advisable to continue open market purchases at about the present rate."

There ensued a general discussion in which those present all indicated general agreement with the view which Governor Harrison had expressed to Governor Black in the memorandum; namely, that the committee saw no present need for further open market operations purely on the basis of monetary considerations as they appeared from the strict viewpoint of the bank of issue. But it was agreed that because of the other considerations mentioned in the memorandum it was desirable for the present to continue purchases. It was voted that purchases not to exceed \$36,000,000 be made in the current statement week with the understanding that a lesser amount might be purchased if a change in conditions appeared to make that advisable.

At this point Secretary Woodin entered the meeting, and in the course of the discussion Secretary Woodin stated that a continuation of open market operations at about the recent scale was very desirable as an aid to the Administration program.

Secretary Woodin left the meeting shortly thereafter.

The question of the allotment of purchases of securities was then discussed and consideration was given particularly to a proposal made by Deputy

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Governor McKay of the Federal Reserve Bank of Chicago by which the participation of the Federal Reserve Bank of Chicago might be somewhat reduced. In the course of this conversation Governor Black called Governor Harrison by telephone to say that it might be disturbing at this time to make any considerable change in the open market program either with respect to the amounts purchased or the method of allotment. Governor Black saw no objection, however, to the slight change in basis of allotment outlined below.

After further discussion it was voted that the general program of allotting new purchases of government securities on the basis of excess reserves be continued, but that in the application of this formula the minimum reserve percentage considered should be 50% rather than 55%. This change was believed to be justified in view of the considerable evening up of reserve percentages which has resulted from the distribution of new security purchases. Changes in the ratios of participations of the twelve banks are given in the attached exhibit.

There was some further discussion of the amount of securities to be purchased during the statement week, and it was agreed that if the dollar should be very weak in the foreign exchange markets, consideration might properly be given to reducing somewhat the rate of purchases.

The meeting adjourned at 12:45 p. m.

W. Randolph Burgess,
Secretary.

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Per cent Distribution of Excess Reserves
of Federal Reserve Banks on September 13, 1933

	<u>Over 40%</u>	<u>Over 45%</u>	<u>Over 50%</u>	<u>Over 55%</u>
Boston	8.6	9.1	9.7	11.0
New York	23.9	22.4	20.0	15.5
Philadelphia	5.9	5.7	5.4	4.8
Cleveland	7.1	6.8	6.5	5.9
Richmond	4.2	4.2	4.3	4.5
Atlanta	3.1	3.1	3.1	3.1
Chicago	28.1	29.6	31.8	35.9
St. Louis	4.2	4.2	4.3	4.4
Minneapolis	2.2	2.1	2.0	1.8
Kansas City	4.0	4.1	4.1	4.2
Dallas	1.4	1.4	1.3	1.2
San Francisco	7.3	7.3	7.5	7.7
Total	100.0%	100.0%	100.0%	100.0%

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MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET COMMITTEE

Final Minutes

HELD AT WASHINGTON, D. C., JULY 20, 1933.

7/20/33

The meeting was called to order at 10:45 a. m., with Governor Black in the chair, there being present:

From the Federal Reserve Board
Governor Black and Messrs. Thomas and Szymczak.

From the Federal reserve banks
Governors Harrison, Fancher, Seay, Martin, Geery, Hamilton, McKinney and Calkins, Acting Governor Johns and Deputy Governors Paddock, Hutt, McKay and Burgess.

From the Federal Reserve Board staff
Messrs. Morrill, Wyatt, Goldenweiser, Smead and Carpenter.

Governor Black suggested that the committee which was called together under the terms of the Glass bill should proceed to organize and meet again later with the Federal Reserve Board. The Federal Reserve Board representatives then left the meeting.

It was moved and carried that Governor Harrison be appointed chairman of the committee.

It was agreed that the question of the appointment of a vice chairman be postponed.

It was moved and carried that Mr. Burgess be appointed secretary of the committee.

It was moved and carried that the committee was in favor of the appointment of an executive committee of five and, subject to the approval of the Federal Reserve Board as to there being an executive committee, it was voted that the following should constitute that committee: The representatives of the Boston, New York, Philadelphia, Cleveland and Chicago banks, the representative of the New York bank to act as chairman of the Executive Committee.

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The committee then proceeded to consider the tentative draft of regulations governing open market operations, and after extended discussion the following changes were agreed upon unanimously:

Section I - No change.

" II - " "

" III - " "

" IV - (a) That in the last sentence the word "vice chairman" be omitted, and the following clause added after the word "secretary":
 "...and in the absence of the chairman at any meeting of the committee the committee shall appoint a chairman pro tem."

(b) At the end of the paragraph insert the words "and each Federal reserve bank."

It was also agreed that the attention of the board should be called to a difference between the wording of this paragraph and the law on the question of the attendance of board members at meetings of the committee.

(c) That the words "for its approval" should be inserted after "Federal Reserve Board," in the last line on page 2.

(d) That the words "and as" be omitted in the last line.

(e) That the last clause beginning "and of any other decisions" be omitted.

(f) That in the second line after the words "participate in" there be inserted the words "any specific."

That the last sentence of this paragraph be omitted.

(g) That this entire paragraph be omitted.

Section V - (a) That at the end of this paragraph the following words be added "and to each Federal reserve bank."

(b) That in the last line of paragraph (1) the words "or prescribed" be omitted.

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That in the last two lines of paragraph (2) the clause "and shall be subject to change by the Federal Reserve Board in its discretion" be omitted.

That in the first line of paragraph (3), after the words Federal Reserve Board, there be added "and each Federal reserve bank."

That in the second line of paragraph (4) the words "or prescribed" be omitted.

Section VI - That in the second and third lines the words "or prescribed" be omitted.

That in the second line of paragraph (1) the word "sole" be omitted.

That the entire paragraph at the bottom of page five and at the top of page six, relating to the agreement to sell at the request of the Federal Reserve Board, be omitted.

Section VII - That in the third and fourth lines of paragraph (2) the words "or prescribed" be omitted.

That in the second line of paragraph (4), after the words "cable transfers," there be added "for its own account."

That paragraph (5) be omitted entirely.

That the last paragraph be omitted entirely.

There ensued a brief discussion of the regulations relating to foreign transactions. The meeting adjourned at 12:40 p. m.

The meeting of the committee reconvened at 2:15 p. m., with the same persons present.

✓
(There was a further general discussion of the regulations relating to foreign transactions. Governor Harrison pointed out that the regulations in a number of cases appeared to go beyond the law and he called attention to some of the difficulties which would be encountered in attempting to operate under these regulations. He stated the view that a much briefer regulation which simply quoted the law or paraphrased it would be much easier to operate and would at the

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same time leave the Federal Reserve Board free to amend the regulations later, if necessary.)

It was agreed that a further discussion of this regulation would be postponed until Friday, and that in the meantime Governor Harrison would review the question of the nature of these regulations with Governor Black.

Governor Harrison then reviewed briefly his recent trip abroad.

Governor Harrison also reviewed discussions he had held with stock exchange authorities and some of the New York bankers on the question of bank margins on security loans, and indicated that effective action in New York with respect to this problem was sometimes hampered by competitive practices of interior banks. He suggested that the governors of other reserve banks discuss with their principal bankers the practices which they were following with respect to margin requirements on security loans, with a view to maintaining sound and conservative practices.

At 4 p. m. members of the Federal Reserve Board joined the meeting, there being present, in addition to the committee, - Governor Black and Messrs. Hamlin, Miller, James, Thomas, Szymczak and O'Connor; also Messrs. Morrill, Goldenweiser, Wyatt, Smead and Carpenter. Governor Harrison then reported, on behalf of the committee, the changes in the draft of open market regulations which the committee suggested.

[There was a discussion of the question whether, under the law, a bank was required to designate a particular individual as its representative on the committee, or whether the bank might designate (for example) the principal executive officer, so that the bank might always be represented on the committee. There was also a discussion of the broad question of the extent of the Federal Reserve Board's responsibility for open market operations and particularly the question whether the Federal Reserve Board has the power under the new law to prescribe as well as to approve of such operations.)

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(Governor Black then reported to the meeting a proposal made by the Farm Credit Administration that the Federal reserve banks should purchase Federal Land Bank bonds (possibly under repurchase agreement) in order to enable the Federal Land Banks to purchase farm mortgages from closed banks and thus aid in their re-opening. The primary questions with respect to this proposal were the legal status of such purchases and the desirability of the reserve banks acquiring long term assets of this sort. Governor Black asked that the members of the committee give consideration to this proposal.)

During the course of the meeting a memorandum prepared by the Division of Analysis and Research of the Federal Reserve Board on current credit conditions was distributed to members of the committee.

The meeting adjourned at 5:22 p. m.

On Friday, July 21, the meeting of the committee reconvened at 10:20 a. m., there being present the same representatives of the reserve banks, except Governor Hamilton and Deputy Governor Paddock, who joined the meeting shortly thereafter.

After a further discussion of the regulation with respect to foreign operations of the reserve banks the following motion was unanimously carried:

Since the terms of Section 10(g) of the Glass bill set forth explicitly and in some detail the terms and conditions under which Federal reserve banks may engage in foreign transactions, it was the view of the governors that the board issue a regulation simply quoting or paraphrasing this section of the law, with the assumption of course that such regulation be subject to amendment or amplification if in the light of experience such action seems advisable.

(There was a discussion of the proposal of the Farm Credit Administration and the governors indicated that they did not believe the proposal was one in which it would be desirable for the Federal reserve system to participate.)

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At 11:10 a. m. members of the Federal Reserve Board joined the meeting, there being present, - Governor Black and Messrs. Hamlin, Miller, James, Thomas and Szymczak, and Messrs. Morrill, Wyatt and Carpenter.

The resolution adopted by the committee with respect to foreign operations of the Federal reserve banks was read and discussed. In response to a question, Governor Harrison pointed out that the draft regulations which had been submitted to the committee were more detailed and cumbersome and difficult to operate, than he believed necessary under the law. He pointed out that some of the provisions would be embarrassing to effective operations.

Governor Harrison reported the views expressed by the governors present with respect to a purchase of Federal Land Bank bonds by Federal reserve banks.

At 11:27 a. m. Mr. Sprague, Financial Executive Assistant to the Secretary of the Treasury, was invited to join the meeting and to discuss with the governors and the board current problems of Treasury financing. An extended discussion of this subject ensued. During the course of this discussion Messrs. Goldenweiser, Smead and Harlan (of the Treasury) entered the meeting.

Mr. Sprague particularly desired the views of those present with respect to the effect of fluctuations of the dollar on the ability of the Treasury to sell its obligations, and raised the further question whether the present was not a suitable time for interior banks to become interested in making tenders for Treasury bills. He also requested that some of the governors confer with Mr. Acheson, at his home, during the course of the day.

At this point Messrs. Sprague and Harlan left the meeting.

It was moved and carried that the chair appoint a committee of four governors to call on Mr. Acheson.

After some discussion individual members of the board and many of the governors expressed the view that fluctuations in the value of the dollar created a serious obstacle to an adequate program of long term Treasury financing.

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It was agreed, however, that it would not be appropriate to adopt a formal resolution on the subject.

Before the adjournment of the meeting there were distributed to the committee and the members of the Board the usual report of operations of the Open Market Committee and the preliminary memorandum on credit conditions.

The meeting adjourned at 12:45 p. m.

The meeting reconvened at 2:23 p. m., there being present from the Federal Reserve Board, - Governor Black and Messrs. Hamlin, James, Miller, Thomas, Szymczak and O'Connor; the same representatives of Federal reserve banks; and from the Federal Reserve Board staff, Messrs. Morrill, Goldenweiser, Wyatt, Smead and Carpenter.

Mr. Goldenweiser reviewed briefly the business and credit situation.

There ensued a discussion of open market policy. Governor Black stated the view that it was desirable to continue the present power of the committee and that in view of the uncertainties of the situation it was extremely difficult to tell in advance how much of that power it might be desirable to use. Each of the governors was asked to give his view and they all concurred in the general view expressed by Governor Black, though a number also stated that they would prefer to see no further purchases and favored a conservative course. Governor Seay expressed the view that if further extensive operations were undertaken they should be at the request of the Treasury.

In response to a question by Mr. Miller as to what might be the basis for decisions by the executive committee as to purchases, Governor Harrison stated (1) that there was a government program broadly designed to result in raising prices and that the System's object should be to facilitate and not deter that program; (2) that at the moment there were large excess reserves, so that on strictly monetary grounds there was no occasion to buy at present; (3) that a further serious decline in prices of securities and commodities might affect

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confidence and that some purchases might be helpful under these conditions; (4) that other conditions might arise making purchases desirable, such as a risk of failure of some government issue, too great a tightening of money rates due to a transfer of money out of New York, or other unforeseen events. In view of these considerations a renewal of the authority appeared desirable. Individual members of the Federal Reserve Board expressed general agreement with these views.

There was some discussion of the probable action of the board with respect to the issuance of a regulation dealing with rates of interest on time deposits, and it was indicated that a tentative draft would be ready shortly and would be sent to the Federal reserve banks for comments.

A question was raised as to the effect of the Glass bill on the service of bankers as Class A directors, and it was indicated that the board's counsel had not yet made a ruling on that matter.

Governor Hamilton raised the question whether there had been any indication that the reserve banks would be called upon for any special work in connection with the examination of banks for the Insurance Corporation. The secretary of the board replied that there had been no such indication, but that the prospect of additional examination work made it desirable for the Federal reserve agents to consider strengthening their examining forces.

Mr. O'Connor requested that each of the governors should send him the names of a number of outstanding state bankers in each state that he might have a list of people from whom he could obtain information.

There was a brief discussion of the possible effects of increases in brokers loans on credit conditions and the procedures which might be adopted to deal with them.

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The representatives of the Federal Reserve Board left the meeting at 3:08 p. m.

Governor Harrison requested Governors Fancher, Seay, Martin and Calkins to visit Mr. Acheson.

After a further discussion of open market policy it was unanimously voted to be the sense of the committee that, subject to the approval of the Federal Reserve Board, the resolution of the Open Market Policy Conference of April 22, as modified by telegraphic vote after the executive committee meeting of May 23, authorizing the executive committee to make purchases of up to one billion dollars of government securities be reaffirmed and continued for the unused portion of the authority.

It was agreed that it would be undesirable to include in this resolution any authority to sell, though there was some discussion of the importance of being prepared to sell securities promptly if the occasion arose.

There was some informal discussion of the program to be pursued in the present week, some of the governors expressing the opinion that, in view of the severe reaction in the commodity and security markets, it might be wise to continue purchases for the current statement week rather than showing a change of policy by discontinuing purchases altogether. It was agreed, however, that this question could be determined more wisely later.

Governors McKinney and Hamilton discussed informally the question of loans by reserve banks to agricultural credit corporations and after general discussion those present appeared to be in agreement in seeing no objection to such loans being made by reserve banks.

Governor Calkins raised the question whether some action ought to be taken with respect to the report of the committee on branch banking, and it was agreed that the Federal Reserve Board be asked to furnish the governors with copies of this report in order that a decision might be made as to whether or not

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it should be published.

Governors Fancher and McKay were asked to serve as an informal committee to confer with the Federal Reserve Board as to progress on the pension plan. ✓

The meeting adjourned at 3:45 p. m.

W. Randolph Burgess,
Secretary, Federal Open Market Committee.