

OPEN MARKET POLICY COMMITTEE

Analysis of Replies of the Federal Reserve Banks to Board's Letter  
dated January 23, 1930.

(No replies received from the Richmond, Kansas City or Dallas Banks.)

1. Board's letter: - Changes name to Open Market Policy Conference.

New York prefers present name.

Cleveland objects, and prefers old name.

Other banks do not mention this.

-----

2. Board recommendation: - Each Federal reserve bank to be represented on the Open Market Policy Conference.

Boston:

Suggests representation by the Governor, or by an officer designated by the Board of Directors.

New York:

To be composed of representatives of the twelve Federal reserve banks, provided an effective operating committee is appointed with full authority to execute approved plans or policies.

Committee should be composed of Governors.

We do not object if other Boards of Directors should appoint other representatives.

Philadelphia:

Not material whether Governor or other representative be designated by Directors.

Chicago:

Each Federal reserve bank should be represented.

San Francisco:

The Board of Directors has designated the Governor as its representative.

-----

3. Board letter: - The Conferences should meet with the Federal Reserve Board at such times as may be arranged by or with the Board.

Boston:

Suggests amendment so that Executive Committee can hold meetings on own initiative as well as on call of Board.

New York:

We assume that meetings of the Committee, or the Executive Committee will be called by the Chairman of the Committee after consultation with the Governor of the Federal Reserve Board, whenever desired by the Board or by the Committee.

Philadelphia:

Asserts the right of the Committee to meet whenever in the judgment of the Executive Committee a meeting is advisable.

Objects to the provision of (3) that the representatives of the banks shall meet with the Board.

This fails to observe the distinction running through the Act that the banks are the initiators of all transactions, subject to the review and coordinating authority of the Federal Reserve Board.

The Board cannot properly review policies in the framing of which it participates, nor should it take any part in the routine execution of policies which it has approved.

Objects to provision that the Conference shall meet only at such times as may be arranged by or with the Board. This would give the Board an absolute veto power over meeting of the Committee.

The Board has a veto power over the recommendations of the Committee, but should not have a veto power over its meetings.

The Executive Committee should have power to call a meeting at any time.

Cleveland:

We believe that meetings of the Committee should be called either by the Board or by the Executive Committee.

Two of the regular meetings of the full Committee should be held at the time of the semi-annual Governors' Conference.

Chicago:

The Chairman of the operating body should be authorized to call a meeting of the body at request of two or more members. The Federal Reserve Board could always call the body together.

-----

4. Board letter:- The function of the Open Market Policy Conference should be to consider, develop, and recommend plans with regard to the purchase or sale of securities in the open market.

Chicago approves this.

The other banks do not mention it.

-----

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

The banks do not comment on this.

-----

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

Boston:

Suggests amendment so that conclusions or recommendations of the Open Market Policy Conference shall be subject only to the approval of the Board.

New York:

The policy as to purchase or sale of Government securities should be made subject to review at any time that may seem wise either to the Board or to the participating banks.

We recognize that the banks and the Board have a joint interest in the matter of open market policies with respect to purchase and sale of Government securities.

Philadelphia:

Feels that the function of the Federal Reserve Board is as a supervising and coordinating authority, rather than an originating or operating body.

The Federal Reserve Board letter transforms the Committee into a Conference, the conferees consisting of a representative of each Bank and the Federal Reserve Board.

The Board's draft that the recommendations of the Conference should be submitted to each bank for consideration and, - or - action, is a very cumbersome requirement which might prevent prompt action and prove disastrous.

The Board should not be put in the position of having to consider and decide policies which it has assisted in framing.

These policies would not represent, as they now do, the uninfluenced and independent views of the banks subsequently allowed or approved by the Board, but would be the outcome of a wholly extra-legal conference, in which the reviewing authority had participated ab initio.

Cleveland:

Objects to (6) as cumbersome, retarding action, particularly in emergencies.

Prefers recommendation of Governors that the full Committee shall consider and act upon the recommendations of the Executive Committee, and shall then meet with the Board to discuss these recommendations before action by the Board.

Chicago:

Objects to (6) as unworkable.

Each bank should delegate authority to its representative on the Conference to act for his bank at all meetings of the Conference.

San Francisco:

Suggests that the conclusions and (or) recommendations of the Conference shall be submitted to the Federal Reserve Board for consideration, and if approved by it, shall thereupon become immediately operative, to be participated in by each Federal reserve bank as it may deem expedient.

-----

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

Boston:

Suggests amendment to give Executive Committee power to carry out policies agreed on by the Conference through open market operations, subject to the review and coordinating authority of the Federal Reserve Board.

New York:

The Committee (presumably also the Executive Committee) should have authority to execute approved plans and policies in behalf of such banks as care to participate.

The meetings of the Committee, or the Executive Committee, should be called by the Chairman of the Committee after consultation with the Governor of the Federal Reserve Board, whenever desired by the Board or by the Committee.

Philadelphia:

Objects to provision that the Open Market Committee shall merely execute purchases and sales which have been approved by the banks and the Board.

This would put the Committee in a position little better than that of a broker or dealer.

The Executive Committee should continue to keep close watch upon financial developments, and anticipate as far as possible

situations likely to arise, and be prepared to formulate recommendations and suggestions for the consideration of the full Committee.

Cleveland:

The Executive Committee should have power to carry into effect the policies recommended by the full Committee and approved by the Board, as recommended by the Governors. Membership of the Executive Committee should be rotating, so that the Governor of each bank within over-night traveling distance from Washington would serve at appropriate times.

The Governor of the New York Bank should be a permanent member and act as Chairman of the full Committee, and of the Executive Committee, as the Committee's operations must obviously be carried on in New York.

Chicago:

The Open Market Conference should have an Executive Committee clothed with authority to function.

St. Louis:

There should be some method of rotation on the proposed Executive Committee, excepting only the Governor of the New York Bank.

-----

Suggestions by the Banks as to Participation:

Boston:

Will participate in all open market operations, without, however, surrendering any authority, rights, or powers of independent action conferred by the Federal Reserve Act.

New York:

Any Federal reserve bank may decline to participate in any purchases or sales at any particular time.

Will continue our participation as long as the composition and functions of the Committee will insure and facilitate the formulation and expeditious execution of sound System open market policies.

Our directors are agreeable to continue participation in System open market procedure worked out and agreed upon by the Board and the Committee, provided it is not inconsistent with these general views.

Cleveland:

will cooperate with the Committee, reserving our legal right to engage in open market operations under Section 14.

We have declined to participate only when, in our judgment, the legitimate demands of our member banks made it necessary so to do.

We will continue to support the open market policies approved by the Board, reserving the right to purchase at our option, Government

securities and bills in limited or reasonable amounts when offered to us by our own member banks, and will exercise our right to engage in open market operations for our own account only in unforeseen emergencies.

San Francisco:

Our Board expressly reserves to the Federal Reserve Bank of San Francisco, the right to determine whether the bank will participate in transactions recommended by the Conference and, if it does participate, the extent of such participation.

No present or future participation by this bank in the transactions of said Conference shall be interpreted as a commitment to further participation.

-----  
Reservations.

Boston:

Reserves all authority, rights, or powers of independent action conferred by the Federal Reserve Act.

New York:

Without waiving the powers conferred upon us by law to make purchases and sales of Government securities, we would naturally assume, certainly as long as we continue a part of any approved open market committee procedure acting for the System, that we would not exercise our power to buy and sell Government securities in conflict with approved System policies, except as that might be necessary in an emergency in our own market.

Cleveland:

Will cooperate with the Committee, reserving our legal right to engage in open market operations under Section 14.

We will continue to support the open market policies approved by the Board, reserving the right to purchase at our option, Government securities and bills in limited or reasonable amounts when offered to us by our own member banks.

Will exercise our right to engage in open market operations for our own account only in unforeseen emergencies.

Atlanta:

It is understood that we may continue ordinary every-day practice of buying acceptances within our own District, and of buying from and selling to our member banks, Government and other securities authorized by Section 14.

The above practice will not hamper or interfere with the operations of the Open Market Conference.

Any action necessary in a large amount, in case of emergency, will be submitted to Board for approval.

San Francisco:

Approves Board letter without waiving any right, or delegating any power conferred upon this bank under the Federal Reserve Act.

This Board, in approving the establishment of said Conference, does not surrender, but expressly reserves to the Federal Reserve Bank of San Francisco, the right to determine whether this bank will participate in transactions recommended by the Conference and, if it does participate, the extent of such participation.

No present or future participation by this bank in transactions of said Conference shall be interpreted as a commitment to further participation.

-----

Joint Interest.

New York:

We recognize that the banks and the Board have a joint interest in the matter of open market policies with respect to purchase and sale of Government securities.

Right of Withdrawal from the Conference.

New York:

Any Federal reserve bank may withdraw from the Committee procedure altogether, if it deems it advisable.

Exigencies.

New York:

We would not exercise our power to buy and sell Government securities in conflict with approved System policies, except as that might be necessary in an emergency in our own market.

Cleveland:

While we reserve the right to purchase at our option Government securities and bills in limited or reasonable amounts when offered to us by our own member banks, we will exercise our right to engage in open market operations for our own account only in unforeseen emergencies.

Atlanta:

Any action necessary in the way of buying acceptances within our own District, and buying from and selling to our member banks Government and other securities authorized by Section 14, in a large amount, in case of emergency, would be submitted to the Board for approval.

Chicago:

The Federal reserve bank retains the powers conferred upon it by Section 14 to the extent that it may protect any sudden or extreme emergency.