

MINUTES OF THE MEETING OF THE OPEN MARKET INVESTMENT COMMITTEE
HELD AT THE OFFICES OF THE FEDERAL RESERVE BOARD
WASHINGTON, D. C., JANUARY 7, 1929

The meeting was called to order at 10:45 A.M. The following were present:

- Governors Harrison (Chairman), Fancher, Harding,
- McDougal, Norris and Seay
- Mr. Burgess, Acting Secretary.

It was voted to invite Governor Seay and Governor Calkins, who were in Washington on other matters, to attend the meeting of the committee and to invite Governor Young to attend after a preliminary discussion.

The preliminary memorandum on credit conditions and the report of the secretary were read, and on motion, accepted.

Governor Harrison made a statement concerning the position of the accounts of foreign correspondents, and the effects upon these accounts and upon business generally of a continued period of high money rates in the United States. He indicated that the principal important banks of issue abroad, with the exception of Germany, have used large amounts of their foreign balances in sustaining their exchanges, and that the Bank of England had lost large amounts of gold also. Moreover, in most of the countries of Europe the return of production and trade to more normal volume has created a demand for additional credit and bank reserves. Under these conditions there has already been some stiffening in money rates abroad and some increases in the discount rates of banks of issue. This movement is likely to go further if money rates continue high in this country. It seems likely, moreover, that Europe may require further amounts of gold.

At this point Governor Calkins entered the meeting (11:07 A. M.)

Governor McDougal raised the question whether it was desirable for the Federal reserve banks to make the present charge of one eighth for their guaranty on bills bought for the account of foreign correspondent banks. Governor Harrison indicated that this was a customary charge by banks in this country for this service,

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and that if for no other reason it was desirable for the Federal reserve banks to conform to the practice in this country so as not to compete unfairly with member banks.

There ensued an informal discussion of the general credit situation and the methods which might be employed by the reserve banks to prevent further excessive increases in the volume of credit, including a discussion of the year-end situation and the probable return flow of funds to principal centers during January and February. The discussion included also a review of the methods employed by the reserve banks represented in dealing with member banks who were large or continuous borrowers. It appeared to be the general view of those present that interviews with member bankers, to secure their cooperation in preventing excessive use of Federal reserve funds, were of great value, particularly at this time, as a means of making sure that the seasonal return flow of funds is employed in the reduction of bills and securities of the Federal Reserve System.

The committee also discussed the possible desirability of a sale of securities as a means of preventing the stimulation of further increases in the volume of credit in the first two months of the year.

The committee then discussed the position of the present Open Market Committee in view, (1) of the fact that at the joint conference the representatives of all the banks indicated a desire for the reorganization of the committee, and (2) of the form of the Federal Reserve Board's disapproval of the recommendation adopted by the meeting of the committee in November.

At 12:35 Governor Young was invited to join the meeting. Governor Harrison summarized for Governor Young the discussion which had taken place. Thereupon the members of the Committee discussed with Governor Young the status of the committee indicating some possible embarrassment in acting when not constituted in accordance with the wishes expressed by the joint conference.

Governor Young indicated that the Board was still considering the recommendations of the conference and that he hoped for action in the near future.

Concerning the question of the relation of the committee to the Federal Reserve Board, the question was raised whether as a matter of procedure the Board was prepared as in the past to approve in advance a policy recommended by the committee, which would then be executed by the committee, or whether, as implied in the Board's letter of November 27, 1928, the Board would only approve any purchase or sale of Government securities at the time it was to be made. Governor Young indicated that in his view, and he believed in the view of a majority of the Board, there was so great difficulty in predicting in advance what policy should be followed in the purchase or sale of Government securities that he believed the Board would wish to defer the approval of any policy until the time when the purchase or sale of securities was to take place.

There ensued a discussion of policy as to the discount rates, direct action, or the purchase or sale of Government securities.

The meeting adjourned at 2 p. m.

The committee re-convened at 3 p. m., there being present

Governors Harrison, Fancher, Harding, McDougal,
Norris, Calkins and Seay,
Mr. Burgess, acting secretary.

The discussion of general credit policy and possible open market operations was resumed. In view of the recent continued tendency toward an increase in the volume of credit, the committee was of the opinion that the System should be prepared to sell up to \$50,000,000 of Government securities during January or February, if the amount of member bank indebtedness in principal cities should diminish to an amount where money rates become so easy as to stimulate further increases in the total volume of credit beyond that required for business purposes. It was the sense of the committee, however, that there is no occasion now to make a recommendation, either as to the purchase or sale of Government securities for System Account.

After further consideration of the matters discussed at the morning session the committee expressed the view that it would be helpful and desirable to have some

more definite understanding or definition of its functions. In the past the Committee has felt, and has understood that the Board concurred in the view that it was a reasonable and proper division of authority and responsibility that the Committee should recommend policies, that these policies should then be approved or disapproved by the Federal Reserve Board and the participating Federal reserve banks, and that if approved by the Board the Committee should then have authority, within specified limits, to take such action as may be appropriate to carry out the policies so approved for account of all banks desiring to participate.

It was the opinion of the Committee that a continuance of this procedure would be desirable and would facilitate the Committee's serving its most useful purpose, especially if the membership of the committee is enlarged to twelve as recommended by the joint conference last November.

At 4:05 the committee met with the Federal Reserve Board, there being present in addition to those noted above -

Governor Young,
Messrs. Platt, Hamlin, James, Cunningham, and Pole,
Messrs, Goldenweiser, Eddy and McClelland.

Copies of the preliminary memorandum on credit conditions were distributed to those present.

Governor Harrison then made a statement reviewing the general credit situation and the position of foreign banks of issue, and summarizing the committee's discussion at the morning session. He read to the meeting the preliminary draft of the minute which had been prepared to cover the Committee's views with regard to the possible sale of securities and the scope of the functions of the Committee.

There ensued a discussion concerning the general credit situation, and particularly the prospective movement of funds during January and February.

There was also an informal discussion concerning the possibilities of broadening the bill market. Some members of the Board raised the question whether

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the sale of bills from reserve bank portfolios would aid in the distribution of bills. Representatives of the reserve banks present reported that in their opinion there is an ample supply of bills available at all times for investors without the necessity of selling bills from reserve bank portfolios.

The meeting adjourned at 5:15 p. m.

W. Randolph Burgess
Acting Secretary

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In view of the recent continued tendency toward an increase in the volume of credit, it is the opinion of the Committee that the System should be prepared to sell up to \$50,000,000 of Government securities during January or February, if the amount of member bank indebtedness in principal cities should diminish to an amount where money rates become so easy as to stimulate further increases in the ^{total} volume of credit beyond that required for business purposes. The Committee, however, sees no occasion ^{to} ~~to~~ make a definite recommendation. ^{either as to the purchase or sale of securities for the account}

The Committee feels that ~~there should be some~~ ^{more} ~~more~~ ^{definite} definition of its functions. In the past the Committee has felt and has understood that the Board concurred in the view that it was a reasonable and proper division of authority and responsibility that it should recommend policies, that these policies should then be approved or disapproved by the Federal Reserve Board, and that the Committee should then have authority, within agreed limits, to take such action as may be appropriate to carry out the policies so approved. It is manifest that if the Committee were at liberty to both determine and execute policies, the Board would be without authority. If on the other hand the Committee cannot either determine or execute policies, it is without authority and would not seem to serve its most useful purpose.

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*part of minutes of open market comm
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