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MINUTES OF MEETING OF THE EXECUTIVE COMMITTEE
OF THE OPEN MARKET POLICY CONFERENCE HELD AT THE
OFFICE OF THE FEDERAL RESERVE BANK OF NEW YORK
OCTOBER 26, 1931

333-C-2
Final minutes
10/26/31

The members of the committee arrived at about 10:30 a. m., and report of operations and memorandum on credit conditions were distributed and read.

The meeting was formally called to order at 11:25, there being present the following:

Governor Harrison, chairman, and Governors Young, Norris, Black, and McDougal, Governor Meyer of the Federal Reserve Board, and Mr. Burgess, secretary.

The report of operations and memorandum on credit conditions were ordered received and placed on file.

Governor Harrison stated that there appeared to be two important problems to consider, the first relating itself to system general policy, whether to buy governments, sell governments, or to maintain present holdings unchanged, and second, the question of the distribution of governments and bills between individual reserve banks to take care of needs which might arise for banks to maintain their reserve percentage or their amount of free gold. He proposed discussing the first question first and separately from the other question.

Governor McDougal made a statement as to the position of the Chicago Bank with regard to government securities citing the changes which had taken place in Federal Reserve credit and recommending the reduction of system security holdings by the amount of the maturities through next March.

Governor Harrison reviewed the considerations affecting open market policy, indicating, first, that the free gold position of the System was not a consideration at this time first because there is now, even after a loss of over \$700,000,000 of gold over \$800,000,000 free gold in the System, practically as large as before the outward gold movement started and second because a sale of government securities would not in fact really strengthen the System's gold position. Its only effect would be to provide additional collateral for Federal

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reserve notes, whereas there is an ample amount of collateral either now on hand or in sight so that a shortage of collateral would not be a limiting factor on the amount of gold which could be exported or the amount of Federal reserve notes which could be issued. At the present time only \$300,000,000 of Treasury notes out of \$2,700,000,000 outstanding are not collateralized to 60% of value by eligible paper.

The most important question which the System faces at present is the problem of bank failures and hoarding of currency. Failures had been increasing at a rapid rate and are exercising a terrific pressure on the credit situation. Every action of the System should be considered in the light of its possible effect on these failures and on the willingness of banks to help out their correspondents in time of difficulty. A decrease in the System's holdings of government securities might affect the situation adversely, first, by its psychological influence as indicating a policy of pressure, and second, as tending to increase the amount of member bank discounts and so making them somewhat less willing to lend freely to help banks actually in need.

Governor Harrison reported his conversations with New York bankers in which he had recommended that a policy of very liberal lending be followed, particularly to out-of-town banks which had need. The present was a time when liquidity should be used rather than preserved. He felt it desirable that nothing should be done by voluntary System action unnecessarily to discourage the use of this liquidity in rendering aid to banks in need.

There ensued a general discussion of the attitude taken by city banks toward assisting banks in difficulty, the general sentiment of the meeting being that **everything** should be done to persuade banks to adopt a liberal policy in this regard and to borrow freely from the Federal Reserve System when that was necessary to meet the needs of the situation.

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Governor Norris stated that while he had recently been opposed to purchases of government securities and would like to see System holdings reduced, he did not think the present was a time when we could wisely sell securities. The System had cooperated in the movement toward easy money as a result of which many banks had bought government bonds at low yields, and any action now which tended to accentuate the losses of banks on governments would be most unpopular.

Governor Meyer indicated that the committee at present had no authority to sell governments, but that it could, if desired, request the Federal Reserve Board to approve the recommendation of the last Open Market Policy Conference that the executive committee be given authority to sell up to \$120,000,000 of governments.

Governor Young summarized the advantages and disadvantages of a decrease in holding of government securities, and concluded that it would not be wise at this time to sell government securities or to let the total run off except possibly to the extent that it might be desirable to offset purchases of Intermediate Credit Bank debentures and municipal warrants.

Governor McDougal moved that unless conditions changed System maturities of government securities in November be allowed to run off.

The meeting adjourned at 12:50 without action having been taken on this motion.

The members of the committee attended the meeting of the executive committee of the Federal Reserve Bank of New York and resumed their own meeting at 3:25 p. m., there being present all of those who were present at the morning meeting.

Governor Harrison reported the probable plans of the Bank of France with respect to its American balances.

Governor Meyer reported a series of telegrams from Governor Calkins of the Federal Reserve Bank of San Francisco recommending letting maturities of government securities run off for the balance of this year at least, and recommending some

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plan for a more equitable distribution of holdings between the Reserve banks to provide a more ample free gold position and reserve position for some of the banks.

The motion made by Governor McDougal at the conclusion of the morning's meeting was seconded and on motion defeated by a vote of 4 to 1.

It was moved and carried that while for the moment there is no occasion for a reduction in System holdings of government securities, that by reason of the views expressed by a number of governors favorable to a sale of government securities, and because of the possibility of changes in the credit situation which might make sales desirable, the committee ask the Federal Reserve Board to give the executive committee the same leeway with respect to sales of government securities as it now possesses with respect to purchases as recommended by the resolution of the Open Market Policy Conference on August 11."

With regard to the desirability of a meeting of the Open Market Policy Conference it was agreed that the results of the day's meeting should be sent to the other Federal reserve banks by telegram and letter as early as possible, and it was the sense of the committee that there should be a meeting of the Conference as soon as conditions appeared to make it wise and practicable for the governors to leave their own institutions for such a meeting.

There ensued a discussion of the distribution of government securities between individual Reserve banks with special reference to a number of requests which have been received recently to take over securities from Reserve banks whose position required strengthening. It was agreed first that a bank which was short in its reserves should ask for relief through the sale of bills to other Reserve banks whenever its situation could be relieved by that method; and second, that in the case of a bank where its difficulty was in its free gold position rather than simply in its reserve position, it should offer its government securities to other Reserve banks through the committee, but should only make this request when it was really necessary to strengthen its position, and the amount of the request should be limited to that necessary to meet the usual fluctuation in its gold holding.

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The committee would then offer participation in these bills and securities to the other banks with the understanding that those whose reserve position is such as to enable them to take bills or securities should cooperate to the fullest extent possible.

There was then some discussion as to the policies followed by the Reserve banks as to lending on government bonds. The New York, Chicago, Minneapolis, and Atlanta banks were reported as lending on government bonds at their par value. The Philadelphia bank was lending at par value when the market price was 95 or better, and the Boston bank was reported as lending on values at market. In the discussion it was emphasized that the Reserve banks had been vigorously supporting the ruling of the Comptroller under which prime bonds were to be listed at par, and the acceptance of governments at something less than par would appear to be inconsistent with this position. Moreover, there was a good deal of disturbance among member banks at recent declines in government bonds which would be accentuated if the Reserve banks took these bonds at less than par. In view of the limited amount of governments selling below par and the additional protection the Reserve banks possessed it was not believed any considerable risk was taken.

Governor Young raised the question whether there was any way of distributing earnings or losses on open market holdings in a more equitable manner, but after discussion no motion was made upon this point.

Reference was made to payments of gold coin into circulation, and it was agreed that the principle which must be followed was that payments should be made with complete freedom. The amounts of such payments made thus far have not been important.

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Governor Harrison reported that at the New York bank gold certificates were being paid into circulation only on request, but that there was no hesitation in making such payments when asked. As a result considerable amounts of gold certificates were being retired from circulation.

The meeting adjourned at 4:40 p. m.

W. Randolph Burgess,
Secretary.