

Office Correspondence

FEDERAL RESERVE
BOARD

Date

7/1/27

333-6-10

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To _____

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From _____

On December 3, 1923, the Federal Reserve Board considered a report submitted by the Open Market Investment Committee at the Conference of Governors held in November, and following a meeting with the members of the Committee on the same date, adopted a resolution declaring itself in favor of the purchase of a limited volume of short term government securities, it being understood that the Board reserved the right to discontinue purchases and to require the sale of any of the securities purchased at any time it might deem expedient. The minutes of the Committee show that it was understood that the Chairman would ask for the views of the Federal Reserve Board and the participating reserve banks as to further purchases after a total of \$100,000,000 had been acquired. The Committee agreed that only early maturing obligations of the Treasury should be purchased. At the beginning of the year 1924 the Open Market Investment Account amounted to \$12,773,000. By the end of January the account amounted to something over \$51,000,000 and a meeting of the Committee was held in Washington on February 8th at which the principal subject of discussion was the increased price of government securities. One of the actions of the Committee was "That the authorized prices for purchase of government securities be revised to an extent that will permit of increased purchases in moderate volume, say up to the amount of \$100,000,000 as previously agreed upon ***."

Another meeting of the Committee was held with the Board on February 25th at which the Committee recommended the extension of the purchases of Treasury notes and certificates to include all maturities up to and including the issues maturing in the year 1927 and voted to authorize the Chairman to submit to all participating banks a recommendation that further purchases, not exceeding \$100,000,000, be made at a new schedule of prices to be approved by the Committee, after the first \$100,000,000 purchase had been completed. Apparently this action of the Committee was never submitted to the Board. At that time (February 27, 1924) the account amounted to \$84,090,500. A new schedule of prices for purchases of securities was shortly afterwards approved by all Federal Reserve banks, including issues maturing up to December, 1927, and the account began to expand until April 22, 1924, the date of the next meeting of the Committee when it had almost reached the \$200,000,000 mark. At this meeting it was voted that additional purchases for the account be authorized up to an amount not exceeding in the aggregate \$250,000,000 and that within this limit the Committee might make purchases at its discretion at current market prices. By May 28, 1924, the account had expanded to \$258,093,300, and at a meeting of the Board and the Committee held in Washington the following day, May 29th, it was voted that the holdings in government securities for special investment account be increased by an additional \$150,000,000, such purchases to be made at the discretion of the Committee at current market prices. This action raised the limit of the account to \$400,000,000. At a meeting of the Committee held in Boston on July 16th, it was voted to raise the limit of government securities for the special account from \$400,000,000, at which figure it then stood, to \$500,000,000, such purchases to be made at the discretion of the Chairman as to prices and to be so

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conducted as to avoid or minimize changes in the credit situation or the market quotations for the securities. It was also voted that the Committee express the view that it would be in favor of increasing still further the limit of \$500,000,000 if conditions remain substantially as they now are and that the Federal Reserve Board be asked to give this proposal its consideration and furnish the Committee with an expression of its views. The Board at a meeting on July 29th approved the recommendation of the Open Market Committee that the holdings be increased to \$500,000,000 but action on the question of further increasing the account to \$600,000,000 was deferred. The peak of holdings of securities in the Open Market Investment Account was reached on September 17th when they amounted to \$510,768,000, but purchases and sales during the ensuing week for later execution actually balanced the account on that date at \$500,000,000 where it continued until the middle of November, 1924. At a meeting of the Committee held in Chicago on October 24th, a resolution was passed that the Chairman should be given authority to buy or sell, after conferring with the other members of the Committee, up to \$100,000,000 of government securities in order to meet any situation in the money market which might develop. As stated above, however, the account continued at \$500,000,000, and at a meeting of the Board held on November 10th, the Secretary was instructed to confer with the Chairman of the Open Market Committee and report the present status of the resolution adopted at the October meeting. However, another meeting of the Committee was held in Washington the next day, following which the Federal Reserve Board approved several recommendations of the Committee including (1) That the Committee continue to make temporary sales or purchases from the special account as may be necessary to stabilize money conditions at tax periods; (2) That the Committee be authorized to commence as soon as practicable to exchange certificates maturing after December 31, 1925 for shorter term certificates; (3) That the Committee be authorized to replace \$65,000,000 of December maturities to such extent as may be advisable in consideration of market conditions at that time and to offset exports or earmarking of gold for foreign account to such extent as may be advisable in consideration of market conditions but not to exceed \$100,000,000; and (4) That the Committee be authorized to sell investments in the special account in order to reduce that account to the amount of \$500,000,000 as rapidly as money conditions make it practicable. There was an understanding that another meeting of the Committee would be held some time during December. This meeting was held on December 19th at which time the account had been reduced to about \$435,000,000. The Committee reported that since the last meeting the principal operations of the Committee had been the sale of March 15th certificates of indebtedness to facilitate the distribution of new Treasury 4% bonds and the redemption of \$65,000,000 of December 15th maturities. It was felt by the Committee at that time that the account should probably not be increased above the then amount but that from time to time some of the holdings should be liquidated and this was concurred in by the Board with the understanding that a meeting

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would be held shortly after the first of the year to review, before any further action is taken, the effect of sales and of advances in bill rates which had been agreed upon. At the end of the year the System account stood at \$449,035,000.

On January 8, 1925, the Open Market Investment account stood at \$398,125,500. A meeting of the Committee was held in New York on January 9th at which it was voted "That the Committee stand ready to make such further sales of securities as seem necessary from time to time in view of changing money conditions to prevent undue ease in the money market." According to the minutes of the Committee "This was also concurred in by all the members of the Federal Reserve Board present." (Messrs. Crissinger and Platt). Approval was given to the sale to the Treasury of certificates of indebtedness held in the account maturing March 15, 1925, or September 15, 1925, and it was also voted to approve the sale of some \$40,000,000 of June and September certificates to a dealer in New York. The minutes of this meeting of the Committee were presented to the Board on January 16th and were noted with approval.

Another meeting of the Committee was held with the Board on February 25, 1925, at which time the System account stood at about \$270,000,000. At this meeting the Committee voted that in case the flow of funds to New York continued the Committee should continue to sell securities from time to time to prevent undue ease in money conditions, such sales to be limited for the present to an amount to bring the special System account down to \$200,000,000. No action by the Board was deemed necessary.

At the time of the Governors' Conference (April 6, 1925) a meeting of the Open Market Investment Committee was held in Washington at which it was voted to be the sense of the Committee that, under authority now vested in it, the Committee should increase its holdings up to approximately \$300,000,000 as and when market conditions warrant, it being the belief of the Committee that present and prospective gold movements make this increase advisable. At the close of business March 31, 1925, the account stood at \$245,203,500. The minutes of this Committee meeting were submitted to the Board at a meeting on April 23rd and were merely ordered circulated.

At a meeting of the Board held on May 21, 1925, attention was called to the fact that no purchases had been made by the Committee under its authorization to increase the account by purchasing \$50,000,000 of securities from time to time. The Board advised the Chairman of the Committee that upon review of existing conditions it felt that before any purchases to increase the aggregate of the account were made they should be submitted to the Board for consideration. Governor Strong replied that the recent distribution of investments, together with the situation in the money market, made it unnecessary for the present to consider exercising the authority and that he would not feel willing to do so without further consultation with the Committee and the Board.

At the time of the next meeting of the Committee on June 24, 1925, the account amounted to \$221,408,800. At this time it was the consensus

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of opinion that further sales from the account might be necessary, under existing authority, for an amount which might bring the account down to \$20,000,000 if there appeared to be a large flow of out-of-town funds to New York during the summer dull period. No formal vote was taken, however, and it was agreed that the members of the Committee should be consulted before any sales were made. The minutes of this meeting were presented to the Board on June 26th and were ordered circulated.

On June 29th the Board approved a recommendation of the Open Market Committee that \$31,000,000 of June 15th maturities in the account be replaced, \$15,000,000 immediately and \$16,000,000 at a later date.

On September 21, 1925, the account stood at \$210,000,000 and a meeting of the Committee was held in Washington on September 22nd. It was suggested by the Committee that the present situation appeared to call not for open market operations but careful consideration of the position of the discount rate which was outside of the province of the Committee. Following the meeting of the Committee a motion by Mr. Miller was voted on and lost. The motion read as follows:

"Resolved that a reduction of holdings of government securities, to be followed in due course by an advance in the discount rate of the Federal Reserve Bank of New York should its discounts show an appreciable increase, will be conducive to the maintenance of a good state of business sentiment and to a healthier credit condition."

At the time of the Fall Conference of Governors the Open Market Investment Account was still being maintained at \$210,000,000. In the report submitted to the Conference, it was stated by the Committee "The influence of our rates is now felt on a considerable body of borrowings and if it appears desirable the next step should possibly consist of changes in discount rates rather than changes in open market holdings. It also seems desirable to maintain the present account at at least its present size so that we may be prepared to deal with any emergency situation. The Committee, therefore, is not prepared to recommend at present any change in our holdings of securities." Reference was made to preparations for the usual turn of the year slackening in the demand for credit and the Committee stated "It will, therefore, be well to consider some temporary purchase of securities at the time of the Christmas currency demand to be sold in January. The wisdom of such a policy can not be determined upon in advance." This report was considered at the meeting of the Board on November 23, 1925. The ultimate action of the Board was to approve in general the report of the Committee and to advise the Committee that an immediate meeting is desired to consider whether changed conditions do not make a change in the Open Market policy of the System desirable. One of the matters referred to the Committee was the question of allowing December 15th maturities of government securities to run off without replacement.

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In accordance with this action a meeting of the Committee with the Board was held in Washington on December 1st. At this meeting it was the consensus of opinion that the Treasury certificates held in the account amounting to about \$38,000,000 maturing on December 15th, should be replaced by other maturities to be purchased by the Committee and this procedure was approved by the Board.

On December 21, 1925, conditions in New York City resulted in the directors of that bank authorizing the Governor to make open market purchases for its account up to \$50,000,000. Governor Strong took the matter up with the Board and expressed the opinion if the purchases were made they should be for the System's account, although if the Board disapproved the transactions as a System one the New York bank would carry in its own portfolio \$18,000,000 of purchases which had already been contracted for. After discussion, the Board approved the recommendation that there be purchased for the System's open market account from \$25,000,000 to \$50,000,000 of securities. It was understood that these securities would probably be resold during the early part of January. Under this authority the account by the end of the year was increased to \$260,000,000.

A meeting of the Open Market Investment Committee was held in New York on January 18, 1926, and the following day Governor Crissinger reported to the Board that the Committee had discussed the question of disposing of the \$50,000,000 of short term government securities which it acquired during the latter part of December for possible resale in January. At this time, the account amounted to \$260,000,000. He stated that the Committee felt in view of existing market conditions and the fact that there were about \$65,000,000 of securities in the account which would mature the following March that it would not be advisable to sell the \$50,000,000 immediately, but that developments in the situation should be closely watched and action taken at such time as developments disclose the desirability of selling. On January 25th, the Board considered a letter from the Deputy Governor of the New York bank advising that money conditions in New York were easing considerably with the result that a moderate demand for short term government securities has sprung up and advising further that the New York bank is inclined to the view that it might be well to supply the market from time to time with a moderate amount of these securities, not exceeding \$50,000,000 from the System's open market investment account, as and when definite orders are received. The proposal set out in the Deputy Governor's letter was noted by the Board with approval.

At a meeting of the Board on March 8th, Governor Strong appeared before the Board for a discussion of present and prospective business conditions. He stated that the System held about \$100,000,000 of government securities which would mature on March 15th, about \$34,000,000 of which were held for account of foreign banks and the remainder in the open market investment account. The account at that time amounted to about \$245,000,000. He stated that the bank had to date received from foreign correspondents requests to replace about \$31,000,000 of securities held for their account and that he thought it advisable, and would recommend, that the run off of about \$66,000,000 of securities from the open market investment account be

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replaced if it possible to do so. He stated, however, that it might be impossible to replace the entire amount. Later on in the meeting, the Board voted to "interpose no objection to the Open Market Investment Committee replacing so far as possible the \$66,000,000 of government securities held in the System account which mature on March 15th."

A meeting of the Committee was held in Washington on March 20th, at which meeting "it was the unanimous opinion of the Committee that other than to replace March 15th maturities no action should be taken, at least until after March 23rd, when the Treasury pays off \$121,000,000 of Third Liberty Bonds and when readjustments after the usual quarter day movement will have been completed. It was felt that until that time it will be difficult to judge the normal trend of the money market." At a joint meeting with the Federal Reserve Board on the same day "individual members of the Federal Reserve Board expressed their agreement with the recommendation of the Committee relative to replacement of March 15th maturities, but no formal action was taken with respect either to that or to the suggestion as to possible future purchases. At that time the System account stood at \$178,588,900. The question of future purchases was discussed in a report which the Committee submitted to the Governors' Conference then in session which contained the statement "we should prepare ourselves now for a prompt purchase of some further amount of securities if and when there should be further evidence of a recession in business activity, especially if there is no further liquidation in the amount of Federal Reserve credit employed."

At a meeting of the Board held on March 23, 1926, it was voted "that the Committee be advised that the Board has considered the report and approves the proposal contained therein to the effect that the System's special investment account should not be changed in amount, except that the March 15th maturities should be replaced as conditions seem to warrant." The following day there was a discussion of open market policy at a joint session of the Board with the Governors' Conference, following which the Conference voted "if developments in the money market indicate any need for doing so the amount of securities in the System account be increased to \$300,000,000, but no purchases shall be made after April 15, 1926, without further consideration." The ultimate action of the Board was to adopt a motion "that the recommendation of the Open Market Investment Committee and the Governors' Conference be approved."

In a letter dated May 28th (at which time the account stood at \$275,000,000) the Acting Chairman of the Open Market Investment Committee, with the approval of the Committee, took up with the Board the question of replacing certificates of indebtedness maturing June 15, 1926, held in the System's special investment account totalling \$36,525,500. The Acting Chairman stated "this, of course, will not change the face amount of government securities held in the special account and is in line with the usual procedure." This replacement was approved by the Board at its meeting on June 2nd.

At a joint meeting of the Board and the Committee held in Washington

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on June 21st, it was voted "that it is expedient that the System holdings of government securities should be maintained for the present at the existing amount, approximately \$275,000,000 (actual holdings \$270,500,000) but with authority to make temporary purchases or sales, within a range of \$50,000,000, as may be deemed advisable by the Committee, any such purchases to be liquidated within a reasonable time as market conditions warrant."

At a meeting of the Committee held in New York on August 17th, it was voted that a sale of approximately \$40,000,000 of Third Liberty Loan bonds, about \$25,000,000 of which were in the System account, be made to the Treasury without replacement, and that a meeting be called the early part of September to consider conditions at that time. It was also voted to approve the sale without replacement of approximately \$20,000,000 of securities from System account to foreign correspondents. This action of the Open Market Investment Committee was presented to the Board at a meeting on August 24th, by the submission of the minutes of the Committee's meeting which were ordered circulated without action. A previous advice received from the Secretary of the Open Market Committee that the proposed sale to the Treasury had been approved by the Federal Reserve banks was noted without action at a meeting of the Board held on August 23rd.

The Open Market Committee meeting held on September 10, 1926, voted "that the Open Market Account should be maintained for the present at \$200,000,000, with the understanding that the Committee could, in its discretion, increase or decrease the account by not more than \$50,000,000." At that time the account stood at about \$210,000,000. The Board on the same date considered the Committee's report and voted "to authorize the Open Market Investment Committee to maintain the System's special investment account at from \$200,000,000 to \$225,000,000," therefore increasing the limit of the account to \$225,000,000.

The Open Market Investment Committee, at the time of the 1926 Fall Conference of Governors, submitted a report containing the suggestion that "it may be desirable to purchase up to \$100,000,000 of securities during the coming six weeks to be sold again at such time as credit conditions appear to make that course desirable. (The account at that time stood at \$200,000,000.) At a meeting on November 10th, the Board directed that a letter be addressed to the Acting Chairman of the Committee stating "the Board understands from the Committee's report that as the Committee views the situation at this time there is no need for action looking toward a change in the amount of the special investment account, as approved by the Board on September 10, 1926, and in this view the Board concurs. The Board, therefore, construes the Committee's suggestion as an expression of opinion on the part of the Committee that in the event of a future change in the present situation, it may be desirable to give consideration to increasing the account temporarily."

At a meeting of the Board on March 21, 1927, with the Open Market Investment Committee, the Committee recommended that it be authorized to replace \$25,000,000 of government securities which were held in the special

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investment account and matured March 15th, and that the Committee be authorized to purchase an additional \$50,000,000 of short term government securities should a situation develop that would seem to justify such action. At that time, the System account stood at about \$175,000,000. The Board placed a limit of \$200,000,000 upon the account by authorizing the replacement of the \$25,000,000 of March 15th maturities, but did not approve the recommendation that the Committee be authorized to purchase an additional \$50,000,000.