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333.-6-2

373 Final Minutes

CONFIDENTIAL

Minutes of meeting of the Open Market Investment Committee for the Federal Reserve System in Washington on July 27, 1927 at 11:00 a.m.

7/27/27

PRESENT: Messrs. Crissinger, Platt, Hamlin, James and McIntosh, Members of the Federal Reserve Board.

Governors Strong, Harding, Norris, Fancher and McDougal, Members of the Open Market Investment Committee.

Governor Young, Federal Reserve Bank of Minneapolis.
Governor Biggs and Chairman Martin, Federal Reserve Bank of St. Louis
Mr. Harrison, Deputy Governor, Federal Reserve Bank of New York.
Mr. Mills, Undersecretary of the Treasury.
Mr. Burgess, Acting Secretary, Open Market Investment Committee.
Messrs. Noell and McClelland, Assistant Secretaries, Federal Reserve Board.

The meeting was called as a meeting of the Open Market Investment Committee with the Federal Reserve Board and representatives of two of the mid-western banks were present. The Chairman presented his report reviewing open market operations and credit conditions. The credit policy of the System was thereupon fully discussed.

"Consideration was given to the continued fall in commodity prices, to the fact that there was a diminution of borrowing from the reserve banks due apparently to some slackening in business, and especially to the relation of money rates in the United States to money rates in Europe. It was reported that because of heavy foreign payments which are likely to increase with the fall movement of commodities to Europe, there was a continued drain on European central bank gold reserves, which made it more than likely that central bank rates in Europe would need to be further advanced this fall. The German and Austrian rates have already been once advanced and there is some probability of a one per cent advance in the rate of the Bank of England.

All present at the meeting recognized that these developments would necessarily have a depressing effect upon business abroad and might tend to restrict

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the freedom of purchases of goods in this country at the usual season. It was also brought out that it is the duty of the central banks to keep money rates at as low a level as may be attained with safety, and that at this time rates could be reduced not only without harm but with reasonable expectations of beneficial results. It was felt that the only possible adverse development resulting from a general lowering of discount rates would be in the speculative security markets, but that this possibility should not stand in the way of the execution of an otherwise desirable policy.

There was no exception to the view that the time had arrived, or was approaching, when the discount rate in New York should be reduced, and with one or two exceptions there was no ~~discount~~ dissent from the view that a System policy of lower discount rates should in general prevail. It was pointed out, however, that local conditions in some of the interior reserve districts did not indicate any demand for rate reductions in those districts and that the small borrowings from the reserve banks indicate an adequate supply of credit for all needs at the present rates. Officers of some of the larger member banks were quoted as opposed to rate reductions. On the other hand, it was pointed out that reductions now, which would result in no harm and considerable possible benefit, would place the reserve banks in position to make increases later which might serve as warnings without penalizing business with high rates.

It was also suggested that in order to make a three and one-half per cent discount rate effective some further purchases of securities might be desirable up to say $50,000,000."

The most important consideration at the meeting was undoubtedly the fact that the differential between the rates in New York and the rates in London was not today sufficient to enable London, and therefore the rest of Eruope, to avoid general advances in rates this autumn unless rates here were lowered, and that the consequence of such high rates as would result in Europe would be unfavorable to the marketing of our export produce abroad and would have an adverse effect generally on world trade.

Before adjournment of the meeting, the foregoing portion of these minutes was read to the meeting and adopted without objection. Thereupon, upon motion the members of the Federal Reserve Board present voted that the authority of the Open Market Investment Committee be extended for the purchase, as and when conditions warrant, of not to exceed an additional $50,000,000. of investments.

(Signed) W. R. Burgess, Acting Secretary
Open Market Investment Committee.

Minutes

Memorandum of meeting of the Open Market Investment Committee for the Federal Reserve System [illegible] Washington on July 27, 1927 at 11 AM.

The meeting was called [illegible] the Open Market Investment [illegible] with the Federal Reserve Board and representatives of [illegible] the mid-western banks were [illegible] the meeting.) The credit [illegible] Thereupon the System was fully discussed.

Consideration was given to the continued fall in commodity prices, to the fact that there was a diminution of borrowing from the reserve banks ~~at a time when there appeared to be~~ due apparently to some slackening in business, and especially to the relation of money rates in the United States to money rates in Europe. It was reported that because of heavy foreign payments which are likely to increase with the fall movement of [illegible] there was a continued drain on European central bank gold reserves, which made it more than likely that central bank rates in Europe would need to be further advanced this fall. The German and Austrian rates have already been once advanced and there is some probability of a one per cent advance in the rate of the Bank of England.

All present at the meeting recognized that these developments

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"PRELIMINARY MEMORANDUM RELATIVE TO OPEN MARKET POLICY

"The gold movements of the past two months have illustrated the need for preparedness on the part of the Federal Reserve System to deal with either gold exports or imports, which was emphasized in the Chairman's memorandum discussed at the last Governors' Conference. This year's gold movements have included the import of 130 million dollars of gold from abroad, the purchase of 62 million dollars abroad, the sale of 100 million dollars for earmarking here, and the resale of 60 million abroad. There has thus been an import movement, or its equivalent, of 190 million dollars and an export movement, or its equivalent, of 160 million dollars. Fortunately these two movements have largely offset each other in their influence on the domestic credit situation. Otherwise they might have occasioned embarrassment. These movements were largely unforeseen and unforeseeable, although at any time possible under present conditions.

Recent transactions in the special investment account have been largely for the purpose of dealing with these changes in gold. At one time, in May, the account was as low as 136 million dollars, and it has now been restored to 265 million dollars. The increase represents largely purchases to offset the earmarking of 100 million dollars of gold here, but includes in addition the purchase of about 30 million dollars of securities under the authority arranged at the time of the Governors' Conference. The following figures show the changes from week to week in the special investment account. It would appear that this portfolio should be increased from time to time when favorable opportunity offers, if the System is to be in a position to meet future extraordinary gold movements.

April	[illegible] - - - - -	$201	million
May	4 - - - - - -	200	"
"	11 - - - - - -	136	"
"	18 - - - - - -	152	"
"	25 - - - - - -	188	"
June	1 - - - - - -	222	"
"	8 - - - - - -	316	"
"	15 - - - - - -	246	"
"	22 - - - - - -	250	"
"	29 - - - - - -	250	"
July	6 - - - - - -	250	"
"	13 - - - - - -	250	"
"	20 - - - - - -	265	"

A temporary increase in the account in ordinary course may be involved in replacing 56 million of maturities in September which includes 30 million taken over from a foreign account in exchange for March certificates. It may be necessary to take over further amounts of securities from foreign correspondents.

The Credit Situation

A number of important changes have taken place in the domestic and foreign credit situation since the Governors' Conference. These may be summarized as follows:

1. Money rates abroad have risen vigorously; open market money rates in London, Berlin, Zurich, and a number of other centers are markedly higher than they were three months ago. The Reichsbank and the Bank of Austria have raised their discount rates. Open market money rates are close to or above the bank rate in London, Berlin, Zurich, Amsterdam, and Milan, as shown in an attached table. These firmer money conditions are undoubtedly exerting continuing pressure upon world trade and world prices, which is liable to react unfavorably upon our own trade and prices.

2. There has been some reduction in business activity in this country, not serious, but indicating a spirit of great caution in business.

3. There has been some congestion of the bond market, due largely to undigested new issues. This situation has been partially corrected.

4. Due largely to reduced industrial payrolls there has been

a slight reduction in the past few weeks in the credit and currency demand, and total bills and securities of the Reserve System have dipped below one billion dollars. The New York Reserve Bank gained 50 million last week in transfers from the interior and New York City member bank borrowing was correspondingly reduced.

5. There is growing ease in money conditions, although some rates are still slightly higher than a year ago, due probably to a higher discount rate at the New York Reserve Bank. Current quotations for money are as follows compared with last year.

	A Year Ago	July 23, 1927
Call money	4	3 3/4
90-day time money	4 1/2	4 3/8
Commercial paper	4	4 1/4
90-day bills	3 3/8	3 1/2
Treasury Issues		
Dec.maturity (notes)	3.03	2.87
Mar. " (C of I)	3.31	3.19
Discount Rate N.Y. F.R.B.	3 1/2	4

The Prospect for Autumn

Normally the approaching seasonal demand for funds might be expected to tighten money conditions somewhat. If this takes place it would have the result (1) of increasing the pressure on world money markets and perhaps forcing up the Bank of England discount rate, and certain of the Continental discount rates, with consequent unfavorable reaction upon world trade and prices; (2) of accentuating the existing tendency towards some reduction in business activity.

If on the other hand steps should be taken which would prevent any seasonal increase in money rates, and tend rather towards somewhat easier money conditions, the following results might be anticipated.

1. An easing of the pressure upon world money markets, which would react favorably upon world trade. The results would be felt partly through the tendency for balances to move in the direction of the highest rate, and partly as lower bill rates here would attract financing to our bill market which might otherwise go to

London and require funds there.

2. Coming at the crop moving season easier money conditions would tend to facilitate the marketing of the crops at favorable prices.

3. It would tend to remove any credit pressure which may now be exerted upon business, and would encourage business enterprise.

4. There would on the other hand be danger that easier money might encourage speculation. The spirit of business is so cautious that it seems doubtful whether speculative tendencies in business would easily arise, but it is probable that easier money would stimulate speculation in securities.

If under these circumstances it should seem wise to follow a policy favoring easier money conditions, the immediate problems would be (1) to localize the effects of easier money conditions, where they would be most beneficial; and (2) to prevent excessive speculation or excessive growth in the volume of credit.

In this connection the attached table shows the total bills discounted at Federal Reserve Banks in the 12 districts. The total is nearly 100 million smaller than it was a year ago and the decreases in bills discounted exceed 25 per cent in the New York, Richmond, Minneapolis, Kansas City, and Dallas districts."

Total Bills Discounted by Federal Reserve Banks
(in millions of dollars)

	Week Ended	
	July 21, 1926	July 20, 1927
Boston	24	32
New York	126	87
Philadelphia	44	42
Cleveland	35	28
Richmond	43	19
Atlanta	44	37
Chicago	56	55
St. Louis	35	33
Minneapolis	8	6
Kansas City	17	11
Dallas	18	8
San Francisco	45	45
Total	495	403

Money Rates in World Markets

		July 1926	May 1927	July 1927
London	- Market Rate	4.25	3.69	4.31
	Discount Rate	5	4.5	4.5
Berlin	- Market Rate	4.5	4.88	5.88
	Discount Rate	6	5	6
Paris	- Market Rate	6	2.25	2.13
	Discount Rate	6	5	5
Amsterdam	- Market Rate	2.76	3.5	3.5
	Discount Rate	3.5	3.5	3.5
Brussels	- Market Rate	6.70	4.25	3.75
	Discount Rate	7	5.5	5
Zurich	- Market Rate	2.31	3.13	3.81
	Discount Rate	3.5	3.5	3.5
Milan	- Market Rate	8.5	9.25	8
	Discount Rate	7	7	7
Vienna	- Market Rate	6	5.38	5.75
	Discount Rate	7.5	6	7
New York	- Bill Rate	3 3/8	3 5/8	3 1/2
	Discount Rate	3 1/2	4	4