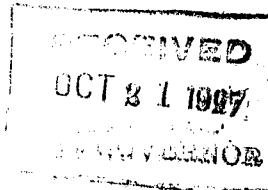


FEDERAL RESERVE BANK OF NEW YORK

PERSONAL

October 19, 1927.

My dear Governor Young:

With this I am enclosing a memorandum¹⁰⁻¹⁸⁻²⁷ which is being submitted to the members of the Open Market Committee for their consideration prior to the meeting which we hope to have in Washington in the near future, also a copy of the memorandum¹⁰⁻¹⁸⁻²⁷ prepared by Dr. Burgess at my request on the subject of the Stock Market.

I hope you will consider these memoranda privately for the moment, as changes may be made before the meeting and it would be a mistake to have opinions crystallize until a final draft of the memoranda can be submitted.

I am sending two copies of each memorandum as I hope you will find it possible to hand one set to Secretary Mellon so that he and you may both be acquainted with the material to be discussed at the meeting. ✓

There is one point of view about our credit situation which is not covered by the papers, and concerning which I am not willing to express any very definite views. The situation may be summarized very roughly as follows:

In the last three years there has been no considerable addition to the gold stock of this country. We figure it amounts to only \$18,000,000 net. During that period the average amount of Federal reserve credit in employment has increased gradually by the sum of about \$200,000,000. In the same period the total volume of bank credit in the country has increased considerably. The figures for reporting member banks are about \$3,000,000,000, and in the ratio which usually prevails this would indicate a total increase of bank credit for all institutions of possibly over \$5,000,000,000. Of this increase, however, possibly as much as 60 per cent consists of time deposits of which possibly 80 per cent. are actual savings accounts. In other words, in the absence of additions to our gold stock

FEDERAL RESERVE BANK OF NEW YORK.....

Hon. R. A. Young

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the banks have required \$200,000,000 more credit at the Reserve banks in order to maintain the reserve necessary to sustain this increased volume of deposit liabilities caused mainly by the growth of savings and partly, of course, by the growth of population and of business activity.

[Of the amount of increase of bank credit referred to, a considerable portion has been employed by the banks in loans upon securities. It is the growth of this loan account which has caused apprehension in the minds of some people, and at times led to the suggestion that we should sell some of our securities and maintain higher discount rates or at least not lower them, so as to check the growth of that loan account. I have not felt that such a policy was justified by the facts, that any effort through higher rates directed especially at stock speculation would have an unfavorable effect upon business generally, and that this would be particularly unfortunate at a time when we are producing a surplus of exportable farm products which cannot be marketed abroad unless this country remains a free loaning market for the rest of the world. In a word, it would mean directing the influence of the Reserve banks against stock speculation regardless of the consequences to business generally and the consequences especially to the farmers at home and our customers abroad.]

At the next meeting of the Open Market Committee I think this general question of our policy should be faced squarely and an understanding arrived at as to general policy, the execution of which should be entrusted to the committee.

When the committee meets we shall probably be able to lay out a program which will be fairly specific and cover a period of, say, three or four months.

I will leave it to you to have a word with Secretary Mellon about it.

Very truly yours,

Hon. R. A. Young,
Governor, Federal Reserve Board,
Washington, D. C.

