Reproduced from the Unclassified / Declassified Holdings of the National Archives

DECLASSIFIED
Authority E.O. 12356

333.-b-2

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.

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

Governors Strong, Harding, Morris, 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. Woell 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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Transmittal letter 7/28/27 filed 333.-b-2

Reproduced from the Unclassified / Declassified Holdings of the National Archives

DECLASSIFIED
Authority E.O. 12356

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 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 unquestionably 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 Europe, 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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Reproduced from the Unclassified / Declassified Holdings of the National Archives

DECLASSIFIED
Authority E.O. 12356

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 $70,000,000. of investments.

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

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis