

DECLASSIFIED
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Minutes

~~Memorandum~~ of meeting of the Open Market Investment Committee

for the Federal Reserve System in Washington on July 27, 1927 *at 11 AM.*

Present

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The meeting was called as a meeting of the Open Market Investment

Committee with the Federal Reserve Board and representatives of two of *the Chairman presented by report reviewing the market operations and credit conditions* the mid-western banks were ~~asked to attend the meeting.~~ The credit

therefor
policy of 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 *are apparently* ~~at a time when there appeared 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 *which are likely to increase with the fall movement of* payments, 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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Committee & Board

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would necessarily have a depressing effect upon business abroad and might tend to restrict the freedom of purchases of ^{goods} ~~raw materials~~ 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} ~~need~~ for rate reductions in those districts and that ^{the small borrowings from the Reserve Banks indicate} ~~there was~~ an ~~ample~~ ^{adequate} supply of credit for all needs at

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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} ~~case~~ a three and one-half per cent discount rate ~~was not effective in bringing about some reduction in~~ ~~the general level of interest rates,~~ 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} ~~were~~ not today sufficient to enable London, and therefore the rest of Europe, to ^{avoid} ~~escape~~ general advances in rates *the continent* 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.