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Final Minutes

8/13/28

CONFIDENTIAL

A meeting of the Open Market Investment Committee was held in Washington, D. C., at 10 a. m., Monday, August 13, 1928.

PRESENT: Governors Fancher, Harding and Norris.
Deputy Governors Harrison and McKay.
Mr. Burgess, Acting Secretary.

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A memorandum on credit conditions together with the report of the secretary covering the operations in the System Account since the last meeting of the committee were submitted and made the basis of an extended discussion of credit conditions and market rates generally.

Reference was made to the report of the committee submitted at its last meeting, in which the committee expressed the opinion that the present amount of member bank borrowings at the Reserve banks and present money rates would not be wholesome if continued over an extended period and that the committee should, therefore, be prepared, when conditions warrant, to exercise its influence to modify these conditions. It was pointed out that we are now approaching a period of seasonal demand for crop movement and other purposes that make it important, that the committee should be prepared with authority, to act, if necessary, in order to avoid any undue credit stringency. There was a long discussion of various means which might be employed in case of need. It was generally agreed that while it might become necessary to put funds in the market through the purchase of Government securities nevertheless it would be preferable not to use that means any sooner than might be required or until it became evident that other means were not adequate to avoid an undue or unwholesome stringency.

In discussing these various factors it was pointed out that the present level of rates in this country has depressed some of the principal foreign exchanges to very near our gold import point, and that there are three possible courses which might be followed by the banks of issue of those countries in meeting the situation: (a) to permit gold to move out, (b) to increase the

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discount rate, (c) to use some of their American balances in order to support their exchange, thus possibly avoiding the loss of gold or the need for an increase in rates. It was stated that some of these foreign banks, with this in view, have already liquidated commercial bills which the Reserve banks have held for their account, and that it has been necessary to take over those bills into the Reserve banks' portfolios, thus putting funds into the market. It was also indicated that if the pressure on these exchanges continues, we might be requested by some of the foreign banks of issue to liquidate government securities from their accounts, and that in view of the existing state of the government security market it might be necessary for the Reserve banks, at least temporarily, to take these securities into their own portfolios.

The committee also reviewed the condition of the bill market, calling attention to the fact that we are now approaching a season when there is a normal increase in the total volume of bankers' acceptances outstanding and in the amount of offerings of those bills to the Reserve banks. Purchase of such bills by the Reserve System would also put funds in the market. The committee felt, however, that in spite of all these influences it might still be necessary for the Reserve banks to purchase government securities in order to prevent any unwholesome restriction of credit, and with this in view, in order that the committee might be prepared to act immediately in the event of a necessity, the following report was prepared and adopted as the recommendation of the committee in regard to the System's open market policy:

> "The policy recommended by the committee in most of its meetings since January, has been to check or prevent unduly rapid or unnecessary increase in the volume of bank credit. While the total volume of loans and investments of reporting member banks is now considerably above what it was at the low point in February, nevertheless, it is approximately $300,000,000 below the high point of May, and there is evidence that member banks are making continued efforts to reduce their borrowings at Federal Reserve Banks.
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> "The committee does not believe that conditions necessitate an immediate purchase of securities by the System. It is of the

opinion, however, that as pointed out at its last meeting, an extended period of high money rates and heavy pressure resulting from large borrowings by member banks would not be wholesome and that there are some indications that with the approaching fall demands for credit it may soon be possible or necessary to take steps looking toward the reduction, or at least the avoidance of the necessity of any substantial increase, in the volume of member bank discounts. With these facts in view and realizing that if and when the time arrives undue delay may be hurtful to the situation, the committee recommends that it should be the policy of the System to purchase securities whenever that should become necessary to avoid undue credit stringency.

"The Committee would expect to take such steps as may be needed to carry out this policy, if approved, believing, however, that it might be advisable to have another meeting of the Committee to review the effect of any steps that may be taken in pursuance of this policy."

Before adjournment, Governor Young joined the meeting and presented to the committee for its consideration and recommendation the following two proposals:

(A) That the Federal Reserve Board should write a letter to each Federal Reserve bank indicating its willingness to approve a special preferential discount rate for agricultural paper drawn for the purpose of crop marketing; and

(B) That it would be desirable for the Federal Reserve System to make a preferential buying rate for bankers' acceptances to be applicable to new acceptances drawn for the purpose of seasonal crop movement.

After Governor Young left the meeting, each of these proposals was considered by the committee and while no formal action was taken in the short time available for discussion, it was the opinion of the majority of the committee with regard to suggestion (A) that the preferential rate on agricultural paper drawn for season crop marketing would be undesirable because it was unlikely such a preferential rate would in fact reduce the cost of credit to the farmer, who would pay to his member bank the same rate no matter at what rate his bank might be able to rediscount his particular note, and because it was felt that the whole problem of crop movement can be dealt with only as a part of the whole credit problem involving all rates in their application to the total volume of credit. In the opinion of the committee this was emphasized by the fact that much of the borrowing for seasonal requirements takes the form of borrowings from city correspondents on notes collateraled by securities, and that it is practically impossible to earmark credit once it has left the Federal Reserve banks. Funds loaned by the Federal Reserve banks, even at preferential rates, find their way into the general credit pool in the same way as other funds put into the market.

With regard to suggestion (B), that is, that the System should make a preferential rate for new bankers' acceptances drawn for the purpose of seasonal crop movement, it was the opinion of the majority of the committee that any drastic change in the general practice of buying bills, such as a preferential rate on a particular class of agricultural acceptances, might have unfortunate results in disorganizing the bill market as a whole without at the same time accomplishing the purposes desired. It is also felt that buying rates for bankers' bills are necessarily related to the entire rate structure and that very deliberate consideration should be given to the question before adopting a preferential rate out of line with general market rates. It was felt by a majority of the committee that advantages that might result from such an action might be more than offset by the disadvantages.

The meeting adjourned at 1:15 p. m. to reconvene at 2:30 p. m.

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The meeting reconvened at 2:30 p. m. in joint session with the Federal Reserve Board.

PRESENT: Governor Young, Messrs. James, McIntosh, Miller and Platt.
Messrs. Goldenweiser, Eddy and McClelland.
Governors Fancher, Harding and Norris.
Deputy Governors Harrison and McKay.
Mr. Burgess, Acting Secretary.

The memorandum on credit conditions and the report to the Open Market Investment Committee were submitted to and read by the Federal Reserve Board. Before discussion of the report, Governor Young asked the committee for its views on the two questions submitted by him at the morning meeting. Mr. Harrison reported orally the conclusions of the committee as given above. After this there ensued a full discussion of the two proposals, especially that respecting the preferential rate on bankers' bills. The committee reviewed to the Board much of the discussion which took place at its morning meeting, emphasizing especially the fact that while the committee believes it might be necessary to purchase Government securities in order to avoid any undue stringency during the seasonal fall demand, nevertheless it was felt by the committee that this action should not be taken unless the various other means of influencing the situation, which were discussed and reviewed, should be inadequate.

In response to an inquiry from Governor Young, the members of the committee expressed the informal opinion that as they see the situation at the present time there is not now any occasion for a change in the discount rates of the banks which they represented.

Before adjournment of the meeting, it was pointed out, as discussed at the morning meeting, that the effort of certain foreign banks of issue to stabilize their exchanges through the sale of dollars might possibly result in their sale of Government securities now held for their account and that it might be necessary, because of the state of the Government securities market, for the Reserve banks to take over those securities, at least temporarily, pending an opportunity to sell them to the market.

The meeting adjourned at 5:00 p. m., with the understanding that the Federal Reserve Board would act upon the recommendation contained in the report of the committee at the Board meeting the following morning. //

W. Randolph Burgess,
Acting Secretary.