

A meeting of the Federal Reserve Board was held in the office of the Governor on Thursday, May 12, 1927 at 10:45 a.m.

PRESENT: The Chairman
Governor Crissinger
Mr. Platt
Mr. Hamlin
Mr. Miller
Mr. James
Mr. Cunningham
Mr. McIntosh
Mr. Eddy, Secretary
Mr. McClelland, Asst. Secretary

PRESENT ALSO: Governors Strong, Harding, Norris, Fancher and McDougal, Members of the Open Market Investment Committee.
Mr. Harrison, Secretary of the Open Market Investment Committee.
Mr. Goldenweiser, Director of the Division of Research and Statistics.

The Chairman of the Committee submitted, for the information of the Board, a memorandum relative to recent open market policy, covering the general credit situation and recent transactions resulting from large purchases of gold. He also presented the recommendations of the Open Market Investment Committee, stating that the recommendations had been submitted to the Governors' Conference now in session and received the unanimous approval of the Governors of all twelve Federal Reserve banks. The recommendations of the Committee were as follows:

"The Open Market Committee, after considering the attached memorandum, and after discussion with the Federal Reserve Board, submits the following recommendations of policy for the period ending August 1 next:

- (1) That no further sales of system securities be made in order to offset arrivals of gold from abroad now known or anticipated.
- (2) That it shall be the policy of the committee between now and August 1 next, gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-time government obligations to bring the total of the committee's investment account up to \$250,000,000. In interpreting the expression

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"undue effect upon the money market," the committee would expect to keep in mind any changes which might occur in the general level of money rates, as well as the extent to which these purchases might effect a reduction in the amount of borrowings by member banks.

While this policy is not directed towards bringing about a reduction in discount rates by any Federal reserve bank, nor is that immediately anticipated, it is recognized that some lowering of market rates for money might nevertheless justify such a reduction later in the year, especially at the principal financial centers. The recommendation in paragraph two is also made after consideration of the fact that somewhat lower interest rates ordinarily operate to check gold imports; in fact, that was one of the effects of purchases of securities made in 1924.

The committee further expects to continue studies of those methods set out in the preliminary memorandum by which increases in the System's portfolio might be brought about without increasing the amount of Federal reserve credit in the market. It expects to discuss with the Treasury Department those methods with which the Treasury is concerned, and requests that the Federal Reserve Board give consideration to those particular items, such as reserves on time deposits, which relate to the regulations of the Federal Reserve Board."

Governor Crissinger called attention to the fact that the Board, under the impression that the Federal Advisory Council would meet here tomorrow, recently requested the Council to make a careful review of the open market policy of the Federal Reserve System since the organization of the Open Market Committee and to give the Board the benefit of its views and to submit any recommendations that may seem desirable with regard to changes in the method or objectives of open market policy. The Governor stated that the Federal Advisory Council would not meet until next Friday, May 20th, and consequently would not be able to discuss the matter as contemplated jointly with the Board and the Open Market Investment Committee.

Governor Strong, Chairman of the Committee, called attention to the fact that the preliminary memorandum presented to the Board shows the present condition of affairs and requested that consideration be given to that mem-

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orandum in connection with consideration of the Committee's recommendations.

Thereupon ensued a detailed discussion as to the present Open Market situation and the desirability of increasing the System's portfolio of government securities, as recommended by the Committee, and of methods whereby such an increase could be accomplished without disturbing the money market.

Mr. Miller expressed his opinion that the recommendation of the Committee for an increase in the investment account up to \$250,000,000 was in the right direction but that the most important question concerned the proper time at which to make purchases.

Governor Strong stated that the purpose of the Committee was to agree with the Board upon the policy which would extend, under existing conditions, until August 1st, and having done so that it would seem to be the responsibility of the Committee to put the policy into execution, keeping the Board informed daily of all transactions.

There followed a discussion as to the possibility of future imports of gold and the effect of such imports upon the money market, in conjunction with a policy of the Federal Reserve System which itself might result in adding to the present supply of money.

Governor Strong expressed the opinion that the policy contemplated in the Committee's recommendations would not result in any increase in Federal Reserve credit in the money market, but would be offset by reductions in member banks' borrowings from the Federal Reserve Bank of New York or in the bill holdings of the System.

Mr. Hamlin then moved that the Board approve the recommendations of the Open Market Investment Committee, as above quoted.

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Mr. Miller moved, as a substitute for Mr. Hamlin's motion, that the recommendations of the Open Market Investment Committee be received by the Board and made special order of business for a date to be fixed by the Governor after conference with the Chairman of the Board.

A general discussion then ensued as to the present method of executing open market policy, touching upon the relative responsibility of the Board and the Committee.

Following this discussion, Mr. Miller's substitute motion was put by the Chair and carried, the members voting as follows:

Governor Crissinger, "aye"
 Mr. Platt, "aye"
 Mr. Hamlin, "aye" *Miller*
 Mr. Cunningham, "aye"
 Mr. McIntosh, "aye"
 The Chairman, "no"
 Mr. Hamlin, "no"
 Mr. James, "no"

The Chairman of the Board and the Members of the Open Market Investment Committee then left the meeting and Governor Crissinger took the Chair.

Governor Calkins of the Federal Reserve Bank of San Francisco was then invited into the meeting and he discussed with the members of the Board in detail, on the basis of developments before he left San Francisco and advices received by him from the Federal Reserve Bank of San Francisco since he has been in Washington, the condition of the Pacific Southwest Trust and Savings Bank of Los Angeles in the light of certain transactions disclosed by a recent examination of the bank, which were the subject of a letter addressed to the Board by the Federal Reserve Agent at San Francisco under date of April 27th. He reviewed the recent transactions so far as he was acquainted with them and expressed the opinion that exclusive of any losses which might

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accrue to the bank through these transactions, its entire undivided profits and surplus accounts would be wiped out and its capital slightly impaired as the result of worthless and doubtful assets taken in the regular course of business. He stated that no one could at this time foretell the results of the recent transactions, and expressed the opinion that it would be most desirable to subject the bank promptly to another thorough examination.

Governor Calkins then left the room and the Board recessed at 1:00 p.m.

The Board reconvened at 2:30 p.m., all members being present who attended the morning session with the exception of the Chairman and Mr. McIntosh.

The Governor referred to the statement made by Governor Strong at the meeting of the Board on May 5th to the effect that the Federal Reserve Bank of New York was endeavoring to purchase from the Bank of France certain gold which the Bank of France was withdrawing from the Bank of England and had sold to and intended to ship to the American Exchange Irving Trust Company of New York City, which, if purchased, the Federal Reserve Bank of New York intended to have earmarked and held for it by the Bank of England. The Governor stated that he had been advised by Governor Strong that the gold in question, totaling \$59,548,000 had been purchased by the New York bank, had been earmarked and was being held by the Bank of England, and that at the Conference of Governors of the Federal reserve banks now in session in Washington it had been voted unanimously that all Federal reserve banks participate in the purchase and that said gold be not counted as part of the banks' gold reserves.

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The Governor stated that he had also been advised that the participation was to be made effective as of May 11th, and recommended that in the Board's published statement showing the condition of the twelve Federal reserve banks, the gold in question be reported against the caption, "Gold Held Abroad", immediately preceding the item "Due from Foreign Banks", and that the published analysis accompanying the statement contain the following brief comment in regard thereto:

"During the week the Federal Reserve Bank of New York purchased abroad \$59,548,000 of gold, the purchase being participated in by all Federal reserve banks. This gold is now held earmarked by one of the foreign correspondents of the New York bank and is shown in the statement against a new item 'Gold held abroad.'"

After a detailed discussion, Mr. Miller moved that the Board reaffirm the position taken at the meeting on January 28, 1921 that Federal Reserve banks should not regard as part of their reserves gold earmarked in foreign countries.

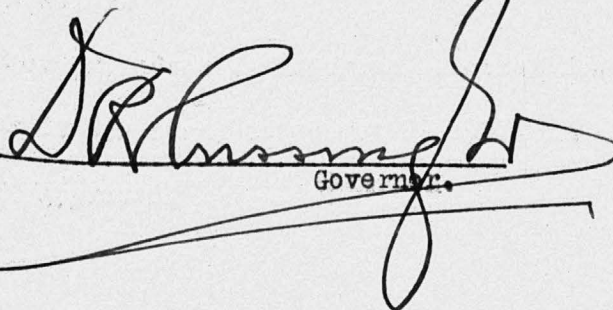
Mr. Miller's motion being put by the Chair was carried.

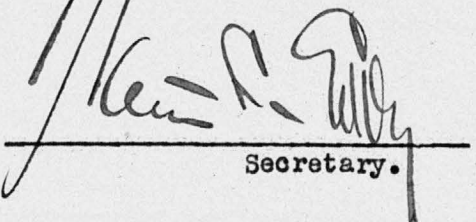
Mr. James then moved that the Board approve the recommendations of the Governor as to the method of reporting in the Board's weekly statement the gold now held earmarked by the Bank of England, and as to the comment concerning the purchase of the gold to be made in the published analysis accompanying the weekly statement.

Mr. James' motion being put by the Chair was carried.

The meeting adjourned at 3:00 p.m.

Approved:


Governor.


Secretary.