

A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, July 27, 1927, at 11:00 o'clock a.m.

PRESENT: Governor Crissinger  
 Mr. Platt  
 Mr. Hamlin  
 Mr. James  
 Mr. McIntosh  
 Mr. Noell, Asst. Secretary  
 Mr. McClelland, Asst. Secretary

The Board participated in a meeting of the Open Market Investment Committee attended by Governors Strong, Harding, Norris, Fancher and McDougal, members of the Committee, and Mr. Burgess, Assistant Federal Reserve Agent at New York, Acting Secretary of the Committee. There were also present Deputy Governor Harrison of the Federal Reserve Bank of New York, Governor Young of the Federal Reserve Bank of Minneapolis, Governor Biggs and Chairman Martin of the Federal Reserve Bank of St. Louis, and Honorable Ogden L. Mills, Undersecretary of the Treasury.

The meeting recessed at 12:45 p.m. and reconvened at 2:00 p.m., all being present who attended the morning session with the exception of the Undersecretary of the Treasury.

Immediately upon reconvening, the following was presented and unanimously adopted as the Open Market Investment Committee's minutes of the morning meeting:

"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

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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 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 undoubtedly 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 unfavorable to the marketing of our export produce abroad and would have an adverse effect generally on world trade."

Following this action, Mr. Hamlin moved 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 \$50,000,000 of investments.

Mr. Hamlin's motion, being voted on by the members of the Board, was carried.

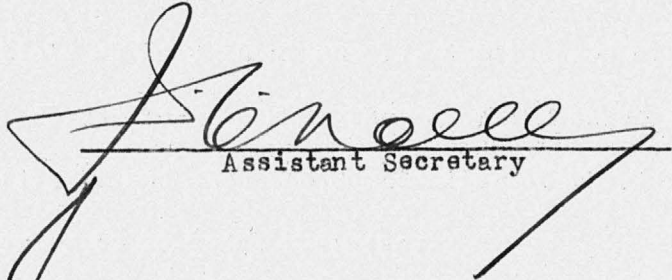
It was understood that a copy of the Open Market Investment Committee's

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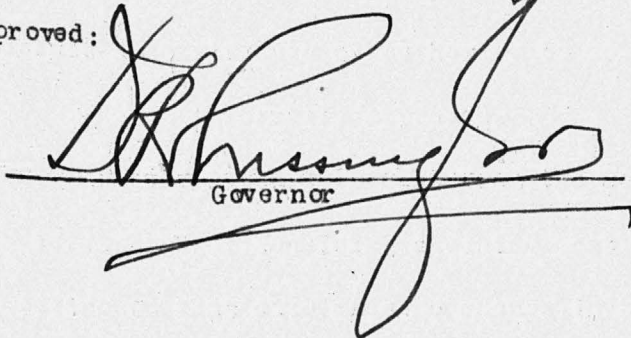
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minutes of this meeting, together with a copy of the report of the Chairman of the Committee, referred to therein, would be sent out under confidential cover to each Federal Reserve bank for presentation to its board of directors.

The meeting adjourned at 3:00 p.m.

  
Assistant Secretary

Approved:

  
Governor