

A meeting of the Federal Reserve Board with the Open Market Investment Committee for the Federal Reserve System was held in the office of the Federal Reserve Board on Monday, March 26, 1928, at 11:15 a.m.

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

PRESENT ALSO: Governors Strong, Fancher, Norris and McDougal, members of the Open Market Investment Committee, and Mr. Harrison, Acting Secretary of the Open Market Investment Committee
 Mr. Parry, Assistant Director, Division of Research and Statistics
 Mr. Smead, Chief, Division of Bank Operations

The Chairman of the Open Market Investment Committee submitted a memorandum, dated March 24th, relative to the policy pursued by the Committee and the effect thereof since its previous meeting, which he stated should be read by the Board in connection with the report made by the Committee at the meeting on January 12, 1928. He also submitted a report adopted by the Committee at its meeting this morning setting forth its recommendations as follows:

"The committee has considered the memorandum submitted by the chairman and has reviewed the results of System open market operations during recent months.

"While it appeared for a time that the purposes set forth in the Committee's recommendations of January 12 were being accomplished, there has recently been a renewed tendency towards what seems an unnecessary expansion of credit indicating that the 4% discount rate in the larger money markets is not as effective as had been contemplated.

"The Committee therefore recommends that the general policy recommended in January be continued until another meeting is held at the time of the Governors' Conference unless or until a change

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"in the situation makes an earlier reconsideration desirable. The Committee would expect to make such changes in the open market account as are necessary to carry out the policy."

The Chairman of the Committee stated that the situation has been discussed in detail by the Board of Directors of the Federal Reserve Bank of New York, which feels that the rediscount rate of that bank has not been effective because of the ability of New York City member banks to liquidate their borrowings at the Federal Reserve bank to a very low figure. He said that in the opinion of the directors of the New York bank, which is concurred in by the members of the Open Market Investment Committee, some further sales of securities should be made from the System portfolio at this time, although there may be further exports of gold which will reduce the amount of sales that may be necessary.

During the discussion which followed, in reply to an inquiry by Governor Young, the Chairman of the Committee stated that the operations proposed by the Committee, if its recommendations are approved, would be conducted with a view to making more effective the prevailing rediscount rates of the Federal Reserve banks and not with a view to bringing about an increase in Federal Reserve bank rates.

The Governor of the Board then referred to the security holdings of the individual Federal Reserve banks which are not included in the System portfolio and which have increased since the establishment of the Open Market Investment Committee by approximately \$50,000,000. He expressed the opinion that purchases of securities by individual banks for their own account if made at a time when the System, through the Open Market Investment Committee, is selling securities have the effect of offsetting

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the influence of the System operation. The matter was discussed at considerable length and it was agreed that it should be made a subject for consideration at the forthcoming Conference of Governors.

Following the discussion, the members of the Open Market Investment Committee and Messrs. Harrison, Parry and Smead withdrew from the room, and the Board discussed the recommendations submitted by the Committee.

Mr. Hamlin referred to a request made of him by Senator Glass, Chairman of the Sub-Committee of the Senate Committee on Banking and Currency which is conducting the investigation of the affairs of the Federal Reserve Bank of Dallas directed by Senate Resolution #152, for a copy of the digest of the record of the proceedings held by the board of directors of the Dallas bank in connection with complaints made by certain member banks in that district.

Upon motion, the Secretary was instructed to transmit a copy of the digest in question to Senator Glass.

At 1:30 p.m., the meeting recessed and reconvened at 3:15 p.m., the same members of the Board being present as attended the morning session, with the exception of Mr. McIntosh.

Consideration of the Committee's recommendation and the operations contemplated thereunder, as well as the effect of such operations, was continued. At the conclusion of the discussion, the following resolution was offered:

"Whereas, at a meeting of the Federal Reserve Board and the Open Market Investment Committee held on January 12, 1928, it appeared to the members of the Board and the Committee that operations in the Open Market Investment Account of the Federal Reserve System should be directed toward bringing about somewhat firmer money conditions, as far as necessary to check unduly rapid further increases in the volume of credit;

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"Whereas, the Federal Reserve Board in line with the policy agreed upon on January 12, 1928, voted to authorize the Open Market Investment Committee to make sales of Government securities from the System Account from time to time during the following two months, and also authorized the Committee temporarily to purchase such securities should developments not then in sight require such action;

Whereas, in furtherance of the above stated policy approximately \$127,000,000 of securities were sold from the Open Market Investment Account, which sales together with an increase in the rediscount rate of the Federal Reserve Bank of New York and certain of the other banks, resulted in firmer money conditions and lead to discontinuance early in February of further sales of securities from the Account until the effect of sales already made and the changes in rediscount rates could be more closely observed;

Whereas, the Federal Reserve Board at this meeting has considered the written recommendation made by the Open Market Investment Committee today and the verbal assurance received from the members of the Committee that the operations in the Open Market Investment Account should be conducted with a view to making more effective, and not increasing, prevailing rediscount rates of the Federal Reserve banks;

Now, Therefore, Be it resolved, That the Federal Reserve Board approve the policy recommended by the Open Market Investment Committee in its written and verbal reports of this date and authorize said Committee to make further sales of Government securities from time to time up to May 1, 1928, at about which time another meeting of the Committee with the Federal Reserve Board will be held unless a change in the situation makes earlier reconsideration desirable."

Upon motion by Mr. James, the resolution quoted above was adopted, Mr. Miller voting "no".

Mr. Hamlin stated that he voted for the resolution in the belief that the Federal Reserve System, by a change of its assets from Government securities to discounted paper, will be in a better position to protect the interests of commerce and agriculture now and in the immediate future without an increase in discount rates.

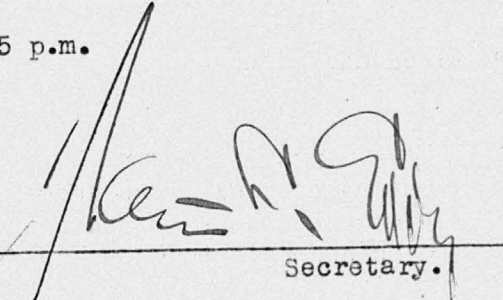
Mr. Cunningham concurred in Mr. Hamlin's statement.

Mr. Miller stated that he voted "no" because of (1) the absence of any evidence of expansion of borrowings for commercial purposes beyond what is seasonal and proper in character; (2) the uncertainty still

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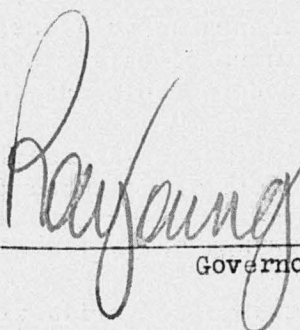
characterizing the business outlook following the recent recession of the autumn and winter; (3) the adverse influence on business recovery that increased money rates may be expected to exert; and (4) the almost certain influence that further firming of money conditions such as is contemplated by the program of the Open Market Committee and a policy of further sales of securities to the open market may be expected to have in advancing money rates. "I am of the opinion," said Mr. Miller, "that the adoption or the approval by the Board of a policy of further firming money conditions will be inadvisable until the whole situation with respect to the probable future course of trade and industry is clearer. The present status of the stock exchange loan account of the banks is not, in my opinion, sufficient justification for a policy of further firming of money at this time."

The meeting adjourned at 4:45 p.m.



 Secretary.

Approved:



 Governor.