

A meeting of the Federal Reserve Board with the Open Market Investment Committee was held in the office of the Federal Reserve Board on Friday, May 25, 1928 at 11:30 a.m.

PRESENT: Governor Young

Mr. Platt

Mr. Hamlin

Mr. Miller

Mr. James

Mr. Eddy, Secretary

Mr. McClelland, Asst. Secretary

PRESENT ALSO:

Messrs. Case, Harding, Norris, Fancher and  
McKay (Members of the Open Market Investment  
Committee)

Mr. Burgess, Acting Secretary of the Open  
Market Investment Committee

Mr. Goldenweiser, Director of the Division  
of Research and Statistics.

At the request of the Governor, the Secretary read to the meeting a preliminary memorandum dated May 24th submitted by the Acting Chairman to the Open Market Investment Committee at its meeting this morning.

The Secretary also read the following report and recommendations of the Committee:

"The Committee has considered the memorandum submitted by the Chairman reviewing the credit situation.

While there has been some pause in the expansion of credit, it is not yet clear that the expansion is definitely checked. The Committee believes that it is difficult to estimate the exact effect of the sales of securities that have been made to date, and feels that it is possible that a cumulative effect not yet apparent may make itself manifest in the near future.

The Committee believes that sales of securities should be continued at least during the next week.

To take care of any acute situation which may develop suddenly, the Committee believes furthermore that it should have authority to make purchases of securities to an amount not exceeding \$100,000,000 as may be necessary to take care of such a situation if it should arise."

At this point, Mr. McIntosh joined the meeting.

The Acting Chairman of the Committee stated that the Open Market Invest-

5/25/28

-2-

ment Account has been liquidated to \$100,000,000 and that the purpose of the Committee in seeking authority to continue sales of securities, at least during the next week, is to place the Committee in position to accept an offer made by the Fiscal Agents of the British Government for the purchase of \$25,000,000 of securities out of a portion of the proceeds of the Australian bond issue recently floated in this country. He stated that these securities would be held by the agents of the British Government for probable use in meeting interest and principle payments due the United States on June 15th. He stated that if these bonds are not purchased from the Federal Reserve System they will be purchased in the open market, in which event in all probability no loss of credit to the market will result as the funds for the purchase are assumed to be on call and the latter transaction would merely exchange a call loan for government securities. The Acting Chairman stated that the Committee felt that the offer should be accepted by the Federal Reserve System.

With regard to the recommendation of the Committee that to take care of any acute situation which may develop suddenly the Committee should have authority to make purchases of securities to an amount not exceeding \$100,000,000 the Acting Chairman stated that this should be considered in the light of the statement contained in the report as to the possibility that the accumulative effect, not yet apparent, of the sales of securities that have been made to date may make itself manifest in the near future. He stated that this recommendation is not based upon any contingency which any member of the Committee can at this time foresee, but is made rather out of an abundance of caution in

5/25/28

-3-

order that the Committee may be prepared to deal with any unforeseen movement which might dangerously affect the credit situation.

The Acting Chairman having previously advised the Board that Governor Harding cast a negative vote on the Committee's report, at the request of Governor Young, Governor Harding explained his reasons for not concurring in the Committee's recommendations, principally that he believes the Committee should no longer operate on a day to day basis but should formulate its policies to cover wider intervals and because he felt that the Committee should not seek authority to deal with strictly emergency situations in the money market as, in his opinion, the Federal Reserve Bank of New York has ample authority to deal with such a situation of its own accord and, having taken action, could then consult with the Committee and the Board as to any System policy or action believed desirable.

Following a general discussion, it was agreed that the Open Market Investment Committee should meet again for the purpose of reconsidering their report in the light of the discussion at this meeting, later joining in another meeting with the Board for discussion of any changes which the Committee might decide to make in its report.

The meeting recessed at 1:10 p.m. and reconvened at 3:00 p.m., the same members of the Board and the Committee being present as attended the morning session, except Mr. McIntosh and Governor Harding.

Mr. Case stated that the Open Market Investment Committee had met again and reconsidered the report submitted to the Board at the morning session, in the light of the discussion which took place at that meeting. He submitted a revised report just adopted by the Committee which was dis-

5/25/28

-4-

421

ussed with the members of the Board and further amended so as to read as follows:

"At the time of the last meeting of the Open Market Committee on April 30th, it appeared that the expansion in the total volume of bank credit was continuing at what appeared to be an unduly rapid rate. Since then, sales of securities by the reserve banks have continued, several of the reserve banks have increased their rediscount rates and there have been further exports and ear marking of gold.

While there has been some pause in the expansion of bank credit, it is not yet clear that the expansion is definitely checked. This meeting of the committee was, therefore, called to review and consider the present credit situation with the aim of determining whether any different policy than that adopted at the last meeting should be recommended.

After considering the memorandum submitted by the Chairman and reviewing the various factors in the credit situation, the committee sees no reason to change the policy adopted at the last meeting and concurred in by the Federal Reserve Board. The committee believes that it may still be necessary to exert further pressure on the credit situation and, to this end, that it may be advisable to make further sales of securities.

The committee would expect to meet again within the next month."

Following a brief further discussion, the members of the Open Market Investment Committee withdrew from the meeting and the Board gave further consideration to the final report and recommendations of the Committee as quoted above.

Mr. Hamlin moved that the Acting Chairman of the Open Market Investment Committee be advised that the Board has considered the report of the Committee, approves the policy outlined therein and authorizes the sale of further securities from the Open Market Investment Account, if such sales are deemed necessary by the Committee.

Mr. Hamlin's motion being put by the Chair and the roll being called was unanimously carried.

The Governor then submitted the matter which was referred to the Law Committee on May 7th, namely, letter dated May 4th from the Chairman of the Federal Reserve Bank of New York, advising that the directors of the bank

5/25/28

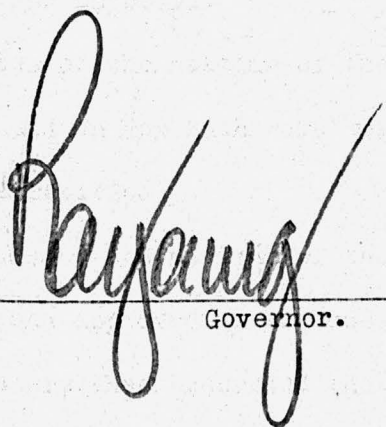
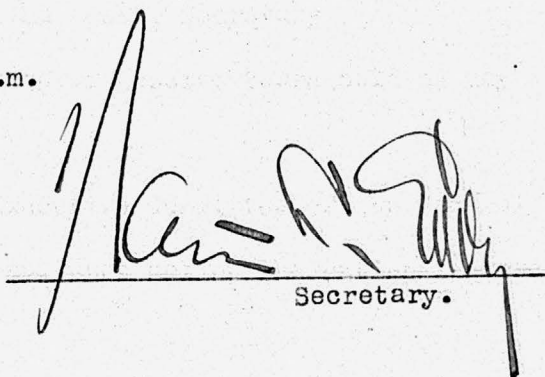
-5-

have voted to appoint Mr. Walter S. Logan as General Counsel, to succeed Mr. L. R. Mason, resigned, and subject to the approval of the Board, to fix his salary at \$20,000 per annum, effective July 1, 1928.

After discussion, upon motion it was voted to approve the salary of \$20,000 per annum fixed by the New York directors, effective July 1, 1928.

The meeting adjourned at 4:00 p.m.

Approved:

  
Governor.  
Secretary.