A meeting of the Federal Reserve Board was held in the office of the Federal Reserve Board on Wednesday, May 22, 1929 at 11:15 a.m.

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

PRESENT ALSO: Mr. McGarrah, Chairman, Federal Reserve Bank of New York.
Mr. Harrison, Governor, Federal Reserve Bank of New York.

Mr. McGarrah and Governor Harrison, who came to Washington at the suggestion of their board of directors, discussed with the Board in detail the general business and credit situation and the question of an advance in the rate of the New York bank.

Mr. McGarrah pointed out that an advance in the discount rate to 6% is part of a machinery which the directors of the New York bank would like to put in operation for the purpose of gaining control of the money market with a view to relaxation of the pressure which has been upon the market in time to meet the demands for credit in connection with the moving of crops and fall business.

In reply to an inquiry as to the program which the New York bank might follow, Mr. Harrison pointed out that at the present time member banks in New York City are very reluctant, due to the policy of direct action, to borrow from the Federal Reserve Bank for any purpose, preferring to pay as high as 7% for Federal Reserve funds on the outside; that with the establishment of a rate of 6% there could be an understanding between the Federal Reserve bank and its member banks that at that rate, which would exercise some restraint, the member banks might come to the Federal Reserve bank for assistance in meeting commercial demands upon them; that after watching developments toward

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the end of the summer it might be possible to enter upon an easing program through the purchase of securities, bills or foreign exchange, whichever might be considered most advisable, with the hope ultimately of reducing the rate, without stimulating speculation as would probably occur should a program of relaxation be undertaken under the present setup."

Mr. McGarrah stated that he personally would not favor going beyond a rate of 6% at this time of the year, although had the matter been left to him in February he would have gone beyond that point if it appeared necessary.

Governor Harrison stated that he could not say what he would do six weeks or two months from now. He stated, however, that he would suppose that a 6% rate would be all that there would be necessary and that it would be well to avoid a higher rate, if possible.

Governor Harrison then advised the Board of the situation in certain foreign central banks, particularly of Hungary, due to losses of gold and exchange, which will undoubtedly make it necessary for other banks of issue to lend assistance. He stated that the Federal Reserve Bank will be called upon and believes it should participate in credits which may be extended. Heretofore, he stated, advances by the Federal Reserve banks to foreign banks of issue have been made through purchases of bills under agreements providing for independent custody and other safeguards. He expressed the opinion that this machinery would prove too cumbersome and stated that he saw no reason why bills should not be purchased under the regular reciprocal arrangements maintained by the New York bank.

The meeting adjourned at 2:45 p.m.

E. M. McClelland
Assistant Secretary.

Approved:

R. A. Young
Governor.

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