Form F. R. 567

END SHEET

KIND OF MATERIAL OR NUMBER

333.-b-1

NAME OR SUBJECT

Open Market Investment Committee Open Market Operations

DATES (Inclusive)

1926 - 1927

PART NUMBER

Part 3

333161

December 28, 1927.



Dear Mr. Gase:

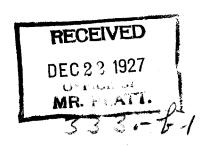
Your confidential letter of the 21st, with relation to open market operations since your last letter to Governor Young, dated December 13th, came this morning and I read it to the members of the Board at our meeting this morning. There was favorable comment I may say on the statement that you do not anticipate any change in your program outlined in your letter to Governor Young.

Yours very truly.

Vice Governor.

Mr. J. H. Case, Deputy Governor, Federal Reserve Bank, New York, New York.

FEDERAL RESERVE BANK OF NEW YORK



CONFIDENTIAL

December 21, 1927

Dear Governor Platt:

Since my last letter to Governor Young under date of December 13.

1927 there has been no increase in the par value of the holdings of Government securities in the Special Account. There have, however, in connection with the December 15, 1927 operations been some changes in the maturities of the issues held. These changes were, for the most part, caused by supplying the fiscal agent of the British Government with the \$92,000,000 and of Treasury Notes due December 15, 1927 to be used by them in making the payment to this Government, and at the same time acquiring from these fiscal agents a like amount of other short-term notes. Everything worked according to schedule with one exception, that is, one of the foreign correspondents at the last minute decided to reinvest the amount realized from the maturing notes in bankers acceptances which left us with \$20,000,000 of short dated Government securities due March 15, 1928. These were placed temporarily in our own investment account, over \$4,000,000 having since been sold and we expect to dispose of the balance shortly directly to the Treasury, or to others, if favorable opportunity occurs before the Treasury is prepared to take them up.

Our loans to member banks on the fifteenth showed a slight reduction but with the collection of the income tax checks the New York City institutions have started borrowing again on a rather large scale, and their loans now stand some \$50,000,000. higher than they were a meek ago. However, despite the fact that shipments and earmarking of gold during this movement have continued and now reach a total of about \$175,000,000, accompanied by the usual seasonal demand for currency, the volume of Federal reserve credit in use thus far has been due to the increase in our loans without further purchases of Government securities beyond the \$45,000,000. Previously reported.

Call money to-day is 4 1/2% and while we expect that there may be a temporary hardening in money rates within the next few days with call money possibly going to 5% or higher, we anticipate no change in the program outlined in my letter to Governor Young of last week.

Very truly yours,

J. H. CASE

Acting Chairman, Open Market

Investment Committee

Honorable Edmund Platt, Vice Governor, Federal Meserve Board, Washington, D. C.

see letter 15/28 see ans 12/22/27

AT BOARD MEETING DEC 22 1927

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aripul 233.-41

December 15, 1927.

Dear Mr. Case:

I brought to the attention of the Federal Reserve Board yesterday your letter of December 13th, advising that total shipments and earmarkings of gold on the resent movement have new reached an aggregate of \$148,000,000, with further anticipated shipments this week of \$14,000,000, but that no additional effecting purchases of Government securities have been made beyond the \$45,000,000 previously reperted.

The Beard was interested in your discussion of the probable money market situation in connection with the December 15th Treasury operations, and I was requested to advise you of the Beard's consurrence in the epinion of your directors that it might be well to let your member banks berrow any additional funds that may be needed rather than to undertake to ease the situation by making further purchases of securities.

Very truly yours,

(Signed) R. A. Young

R. A. Young, Governor.

Mr. J. H. Case, Deputy Governor, Federal Reserve Bank, New York, M.Y.

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FEDERAL RESERVE BANK OF NEW YORK

333.-61/

CONFIDENTIAL

December 13, 1927.

Dear Governor Young:

In Governor Strong's absence, I shall be glad to undertake to keep you informed regarding any changes in the Open Market Investment Account and to furnish you with such information as may have a bearing on the status of the account.

Additional shipments and earmarking of gold on the recent movement have now reached an aggregate of \$148,000,000, with further anticipated shipments this week of \$14,000,000. No additional offsetting purchases of Government securities have been made, however, beyond the \$45,000,000 previously reported.

The recent ease in call money has in part been due to the rather unexpectedly large redemptions of Second Liberty Loan bonds called for payment November 15, with a resultant overdraft of \$57,000,000 now being carried by this This overdraft will be further augmented, on Thursday, December 15, when bank. the maturing 42% Treasury notes will be presented here for redemption, at which time the overdraft, we estimate, may run as high as \$150,000,000 or thereabouts. With the receipt and presentation of the income tax checks, this overdraft should be materially reduced from day to day until about Tuesday, December 20, when, by reason of a call from depositary banks, it is anticipated that the overdraft will be wiped out and the Treasury again have a normal balance. During the last ten days in December, we anticipate that the usual holiday currency withdrawals and the usual year-end "window-dressing" on the part of banks throughout the country, will cause money to be in good demand and that, temporarily at least, call money rates may range from, say, $4\frac{1}{2}\%$ to 5%.

> se letter 12/21/27 see and 12/15/27

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Governor Young

12/13/27.

As you know, this situation was discussed with our directors when you were here in the bank two weeks ago, and the prevailing opinion was and is that it might be well to let our banks borrow any additional funds that may be needed (which we estimate may run as high as from \$100,000,000 to \$150,000,000) rather than to undertake to ease the situation by making further purchases of Government securities.

There will be an unusually large volume of transactions in connection with the Treasury's turnover for December 15, perhaps the principal one having to do with our furnishing the fiscal agents of the British Government, from our open market portfolio, with \$92,575,000 of the 42% U. S. Treasury notes due December 15, 1927, which, in turn, are to be used immediately by the fiscal agents in making payment to the U. S. Treasury. We have agreed to take over from the fiscal agents, in replacement, a like amount of other short-term Government paper. This transaction is being made in order to simplify the Treasury's borrowing program as of December 15, 1927.

The foreign exchanges continue strong: sterling has maintained its position at high levels, today's cable quotations being 4.88 5/16.

Very truly yours,

J. H. CASE,

Ma

Deputy Governor.

Honorable R. A. Young, Governor, Federal Reserve Board, Washington, D. C.

Lee Minutes



333.-41

December 12, 1927.

Door Mr. Harrison:

Your letters of December 3rd and 5th have been brought to the attention of all members of the Board, who have noted with interest what you have to say regarding the reduction of our gold export points to various European countries.

Very truly yours,

"Caleboay) yr by Acous

H. A. Young, Governor.

Mr. George L. Harrison, Deputy Governor, Federal Reserve Bank, New York, H.Y.

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SPECIAL CIRCULATION PLEASE READ PROMPTLY, INITIAL AND RETURN TO

Gov. Young Mr. Platt & X Hamlin

SECRETARY'S OFFI

McIntos,

December 5, 1927.

Dear Governor Young:

17/3/27

Supplementing the letter which I dictated on Saturday but which has not been mailed until today, concerning the changes in our gold export points, you may be interested to know that because of the approach of the guilder to our outgoing point Dr. Vissering has arranged with us to ship \$4,000,000 in gold coin to the Netherlands Bank on Saturday of this week, December 10.

Since the guilder has not as yet reached the export point, it would not be profitable as a commercial transaction to ship gold to Holland. But the arrangement made by Dr. Vissering is somewhat in line with the usual policy of the Netherlands Bank to limit gold movements to and from Holland to transactions with the Netherlands Bank rather than with the private banks if it is possible to do so. Even when exchange rates have in the past warranted the shipment of gold from Holland as a commercial transaction, the Netherlands Bank has generally undertaken to make the shipment themselves rather than to have the shipments made by private banks.

Very truly yours,

GEORGE L. HARRISON.

Deputy Governor.

Honorable R. A. Young, Governor, Federal Reserve Board, Washington, D. C.

see ans 12/12/27

FEDERAL RESERVE BANK

333,-6-1

OF NEW YORK

December 3, 1927.

Dear Governor Young:

As you no doubt have observed the pound sterling closed last night at \$4.88 5/32 the highest it has been since December 1914. This morning it opened at \$4.88 1/8. Guilders which, not many weeks ago, approached our import point of 40.07¢ have advanced steadily since the increase in the discount rate of the De Nederlandsche Bank on October 12, 1927 and closed last night at 40.42 3/4. Other Continental exchanges are also strong.

As a result of this more or less general rise in the exchange value of foreign currencies much discussion has been heard of late as to the possibility of our losing gold to Europe. This is particularly true of England and Holland concerning which there has been much newspaper comment in the last several days.

In the circumstances you may be interested in knowing what we estimate to be the present outgoing gold points as revised to meet the recent reduction in eastward freight rates. In the case of London the freight rate is now .15% in place of the 3/8% heretofore prevailing. Prior to the reduction we figured that the outgoing point to London was \$4.89 31/32. We now figure it to be \$4.88 7/8 so that this morning's opening for sterling is only 3/4 of one cent under the outgoing point.

Our export point to Holland has also been reduced owing to lower freight rates and is now 40.49¢ rather than 40.58¢ prior to the change in those rates.

So also for the same reason we have had to lower our outgoing point to Germany from 24.02¢ to 23.97¢. The mark this morning opened at 23.89 1/2¢.

see ans 12/2/27 see letter 12/5/27

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FEDERAL RESERVE BANK OF NEW RK 2

Governor Young

12/3/27.

The strength in sterling at this season of the year is unusual and has been difficult to account for except by an accummulation of factors such as the delay in the production and export of cotton and an appreciable shift in the financing of cotton from the sterling draft to the dollar draft. It is also likely that speculative short covering of sterling has played some part in its strength during the fall months. But even with its increasing strength we have not thought in the past few weeks that we would lose gold to London believing that it would not have sufficient momentum to reach the export point from New York before some of the sterling drafts drawn to export cotton and other commodities from this country begin to mature.

In the past few days, however, we have had inquiries from some of our New York banks as to the possibility of their purchasing sovereigns from us. As you perhaps know we hold about £ 500,000 in sovereigns. It is our opinion that we should be willing to part with them for export to London only at a price which when the coin is melted down in London would yield a return the exporter of about the equivalent of what the bars would yield if bought in New York and sold in London at the present buying rate of the Bank of England. We have therefore informally indicated that we would sell the sovereigns at a price of \$19 an ounce 11/12 fine which would net us a profit of some \$7,000 on the total amount. This profit results from the fact that we bought the sovereigns by weight less a slight discount for the loss which usually results from melting any coin which has been circulated.

The price which we have quoted means that it will not be profitable to buy them for export until sterling reaches the same point that would make it profitable to export bars, \$4.88 7/8. It is likely, however, that if sterling does reach that point sovereigns would be taken in preference to bars owing to their immediate availability in London.

FEDERAL RESERVE BANK OF NEW RK. 3

Governor Young

12/5/27

For your information I am enclosing a table showing the various factors taken into consideration in figuring the present export point to London.

Please let me know if there are any questions which occur to you concerning which you would like our further views.

Very truly yours,

GEORGE L. HARRISON, Deputy Governor.

Hon. R. A. Young, Governor, Federal Reserve Board, Washington, D. C.

Enc.

ENGLAND

OUR GOLD EXPORT POINT

```
U.S. $18.949181735 (Selling Price) . £3.8875 (Buying Price) = U.S. $4.87438

O070% Packing in New York ($3.50 per $50,000)
Trucking in New York ($3.50 per $50,000)
Trucking in New York ($3.50 per $1,000)
Insurance (4 1/4¢ per $100)
O389 Interest (8 days at 4% on 100%)
O099 Interest (8 days at 4% on 1%)

2928%

U.S. $4.87438 X .2928% = Expenses. . U.S. __.01427
U.S. $4.88865

Gold Export Point . . . U.S. $4.88865
(Say $4.88 7/8)
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Amead and

November 29, 1927

CONFIDENTIAL

FEDERAL RESERVE BANK OF NEW YORK

December 2, 1927.

Dear Governor Young:

Since writing you on November 23, the anticipated firming of call money rates has taken place. As I explained to you yesterday, this is due partly to the heavy calls made upon depositary banks by the Treasury, and partly to the continued outflow of gold. Total shipments and earmarking of gold on this movement now amount to \$128,500,000, while the total of Government securities purchased as an offset amounts to \$44,000,000, leaving a net balance of \$84,500,000 against which no purchases have been made.

As you know, in our talk yesterday we pretty generally agreed that, under existing conditions, there is at the moment no occasion for making further offsetting purchases of Government securities. The \$4,000,000 purchased during the past week represents a single block of Treasury paper due December 15, which we took over from a foreign correspondent.

There will, of course, be some necessary shifting about incident to the December 15 Treasury operation. For instance, at the request of the Treasury Department we are proposing presently to sell, from our Open Market Investment Account and from holdings for account of foreign correspondents, as nearly as may be \$92,000,000 of the 4½ notes maturing December 15, 1927, to the fiscal agents of the British Government for its payment to our Treasury on December 15. We shall, at the same time, acquire in their stead a like amount of other maturities. This program will enable the Treasury to reduce its current borrowing requirements by

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Dee letter 1/8/27 filed 333.3+ meeting of 1/12/28

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FEDERAL RESERVE BANK OF NEW YORK

Governor Y 12

12/2/27.

the amount of December 15 paper turned in on account of the British debt payment.

I am inclined to think that it may be desirable to have a meeting of the Open Market Investment Committee within the next two or three weeks, and I am asking Mr. Case to arrange this with you during my absence from the bank.

Very truly yours,

BENJ. STRONG

Chairman, Open Market Investment Committee.

Honorable R. A. Young, Governor, Federal Reserve Board, Washington, D. C.

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- 131. Office Correspondence FEDERAL RESERVE V 2 8 191 BOARD

____Date_

Governor Young

Subject: Amount of gold that could be exported without causing a shortage of gold in the United States.

From Mr. Smead

I have read Governor Strong's very interesting letter of November 21 regarding the amount of gold which the Federal reserve banks could lose for export purposes without causing a shortage of gold in the United States, and have examined the statements enclosed with his letter which were prepared by his Reports Division.

One of the statements indicates that the System could lose 993 millions of gold for export purposes by the purchase of a corresponding amount of United States securities, as compared with a total of 782 millions given in my memorandum of November 4. My memorandum did not make any allowance for increased note circulation and deposits, being based on the condition of the Federal reserve banks on November 2; nor did it contemplate any change in present operating methods, under which the Federal reserve banks hold in their own vaults, secured by collateral pledged with the agents, about 400 millions of unissued Federal reserve notes. The New York calculation made an emergency allowance of 255 millions for additional note circulation and deposits, but did not provide for the 400 millions of collateral required against Federal reserve notes held by the reserve banks, i.e., it provided for collateral against notes in circulation instead of notes outstanding. Neither did it provide for a 35-million 5 per cent gold redemption fund which the Federal reserve banks would have to carry against 700 millions of paper-secured notes.

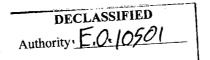
If the New York memorandum had made allowance for 400 millions of collateral against unissued notes held by the reserve banks and for 35 millions in the gold redemption fund, its figure would have been reduced by 435 millions, or from 993 millions to 558 millions; while if we had made the emergency allowance of 235 millions for the additional note circulation and deposits, our figure would have been reduced from 782 to 547 millions. The two calculations are substantially reconciled as follows:

(In millions of dollars)

NEW YORK FIGURE 993 OUR FIGURE 782 Deduct gold required as col-Deduct emergency allowlateral for 400 millions of ance for additional: unissued notes held by Note circulation 200 F. R. banks 400 Deposits 35 235 Deduct 5% gold redemption fund against 700 millions of paper-secured notes 35 <u>455</u> NEW YORK FIGURE adjusted 558 OUR FIGURE adjusted

If gold exports were to be offset by member bank borrowings and by bill purchases, the limiting factor would be the 40 per cent reserve against note circulation (plus the 35% deposit reserve), since discounts and bill purchases would replace the gold collateral withdrawn for export. When, however, United States securities are purchased to offset gold exports, the limiting factor is the requirement for collateral, as pointed out by Governor Strong, since the





- 2 -

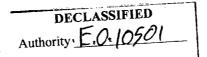
securities are not eligible to replace the gold collateral withdrawn for export. Inasmuch as, under the law, collateral is required for the total amount of notes outstanding, not the amount in circulation only, it would seem that the figures given by New York should be reduced by 435 millions, or from 993 to 558 millions. Of course, the amount of unissued Federal reserve notes held by the Federal reserve banks could possibly be reduced from the present figure of 400 millions (the New York bank alone holds 120 millions), with a corresponding release of gold for export, although it should be noted that this amount of unissued notes is close to the average held in recent years in the reserve banks' vaults.

The second table prepared by New York is based on the assumption that 1 billion of gold is withdrawn from circulation in exchange for a like amount of Federal reserve notes, and indicates that of the 2,033 millions of gold that could then be withdrawn from the System for export purposes, 1,040 millions would have to be released by the Federal reserve banks through the discount or purchase of eligible paper, leaving a maximum of 993 millions, as in the first calculation, that could be released through the purchase of United States securities.

This table, like the preceding one, is compiled on the basis of collateral requirements against notes in circulation, rather than notes outstanding, and like the other one it makes no provision for the 5 per cent redemption fund against paper-secured notes outstanding. Furthermore, it assumes that about 1 billion dollars of gold could be withdrawn from circulation, although there is considerable doubt about the feasibility of this as only 1,068 millions of gold certificates were in circulation on November 1.

Assuming that 1 billion of gold could be withdrawn from circulation, but basing our calculations on notes outstanding instead of notes in circulation, and making provision for the gold redemption fund, we find that of the 2,033 millions of gold exports, 1,553 millions would have to be offset by eligible paper and only 480 millions could be offset by security purchases. The difference of 513 between our result and New York's represents the 400 millions of additional paper that is required to cover the unissued notes held in the bank's vaults and 113 millions of paper to replace the gold which would have to be carried by the banksagainst paper-secured notes outstanding. This difference is brought out in detail in the following comparison of New York's calculation and ours:

Copy to each member DEC 14 1927



- 3 -

(In millions of dollars)	MEW YORK	OUR FIGURES
F. R. note circulation	2,900 2,450	2,900 2,450
(including emergency allowance) F. R. bank reserves after withdrawal of 1,000 from circulation	4,050	4,050
Gold exports	2,033	2,033
Reserve required: Against F. R. note circulation - 40%	1,160 857	1,160 857
Total	2,017	2,017
Collateral required against: Notes in circulation	2,900	 3,300
Gold reserve available as collateral	1,160	1,047
Eligible paper required as collateral: Now available	700 1,0 4 0	700 1,553
Total	2,900	3,300
Gold exports	2,033 1,040	2,033
Amount that can be offset by security purchases	993	480

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OF NEw YORK CIAL CARGULATION

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PLEASE READ FROMPTLY, INITI/ Land PRETURN 30 SACKETARY'S CTO

OF New YORK CHARLES OF TOTAL CONTROLLATION

FOR SPECIAL CARGULATION

WIT. Hamilia Mr. Cunninghament

Mr. Cun

Referring to the last paragraph of your letter of November 16 the Treasury overdraft together with the November 15 financing undoubtedly has had a tendency to rather sharply ease the money market. Our large member banks today were about ninety millions over in actual reserves although only about six millions over in average. This situation should correct itself in a few days as withdrawals of Government deposits and their disbursement in payment of Second Liberty bonds subject the large amount of deposits to the usual reserve requirements when no longer held by the Government. We are making no further purchases of securities and probably will not do so until the true position of the money market is clearer.

Very truly yours,

Being: ktrong

Honorable R. A. Young, Governor, Federal Reserve Board, Washington, D. C.

BS. KMC

AT BOARD MENTING

333.-6-1

November 25, 1927

Dear Governor Strong:

I asknowledge receipt of and have brought to the attention of the other members of the Board who are here today your letter of the 23rd instant, advising of the status of the Open Market Investment Account and the extent to which purchases have been made to offset recent exportations and earmarkings of gold.

Very truly yours,

The Market Street

R. A. Young.

Mr. Benj. Strong, Governor, Federal Reserve Bank, Hew York, N. Y.

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Federal Reserve Bank of St. Louis

And the

November 16, 1927

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Dear Governor Strong:

This will acknowledge receipt of your letter of Movember 15, supplementing our telephone conversation of yesterday afternoon in reference to covering the earmarking and expertation of gold. I have not as yet reported this matter formally to the Board, but I explained the procedure which you are following to a majority of the members, and they advised me that they approve of your action in not offsetting with purchases all of the gold that has been earmarked and experted.

Mr. Mills advised me this morning that the Treesury overdraft will run approximately \$90,000,000 as of the closs of business last night. Their estimate was about \$4,000,000. It must be, however, that the great amount of publicity given to the redemption of Seconds has been quite successful, so that more of the obligations were turned in on the call day than has been the case with any previous issue. It will be interesting to watch the overdraft of the Treesury for the next week.

With kind personal regards, I am

Yours very truly,

(Signed) R. A. Young

R. A. Young, Governor.

Mr. Benjamin Strong, Governor, Federal Reserve Bank, New York City, N. Y.

see ans 11/17/27

PLEASE READ PF Gov. Young Mr. Platt FOR SPECIAL CIRCULATION

INITIAL AND RETURN TO S

Mr. James

Mr. Miller Mr. Cunningham

FEDERAL RESERVE BANK

of New York

November 23, 1927

Dear Governor Young:

There have been no changes in the holdings of Government securities in the Special Investment Account since I wrote you on November 15, the total amount and the respective issues still being as follows:

4 1/2% Dec. 15, 1927 T/N \$ 28,195,500 3 1/4% March 15, 1928 C/I 69,548,500 3 % March 15, 1928 87,399,000 3 1/8% June 15, 1928 87,399,000 4 1/4% Sept. 15, 1928 3rd L/L 177,181,000 \$415,824,000

Additional earmarkings and some further shipments of gold during the past week brings the total movement to date up to \$101,500,000 as follows:

Previously earmarked for a foreign correspondent. . \$50,000,000 11,000,000 Shipped to Brazil on November 4 10,000,000 Earmarked for Poland on November 10 . 11,000,000 Shipped to Brazil 3,000,000 " Canada 1,000,000 2,000,000 Earmarked for Poland * 11,000,000 Shipped to Brazil 2,500,000 \$101,500,000 " Canada

While it is considered likely that further earmarkings or shipments will be made this month, we know definitely as to the following:

To Brazil \$ 3,500,000 # Poland \$ 3,000,000 6,500,000

Making an aggregate of . . . \$108,000,000

No offsetting purchases beyond the \$40,000,000 of which you have already been advised have as yet been made to cover these transactions. The large Treasury

see letter 142/27 see ans 11/25/27

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transactions in connection with the redemption of the Second Liberty Loan bonds have resulted in some ease in money, the Treasury having a temporary overdraft at the Federal reserve banks estimated to amount to about \$72,000,000 as at the close of business to-night. The Treasury has made a call upon depositary banks for payment of this amount on Friday, November 25. Call money has remained easy all week at 3 1/2%, while sterling has remained steady, the cable rate being 4.87 5/8 to-day. With the covering of the Government overdraft, however, we may expect some firming up of money. It may therefore be desirable to make further purchases of Governments in the near future as a partial offset to the large amounts of gold exported or earmarked. We shall continue to keep a careful lookout in order to act promptly if conditions seem to warrant further action.

Very truly yours,

BENJ. STIONG

Chairman, Open Market Investment Committee

Honorable R. A. Young, Governor, Federal Reserve Board, Washington, D. C.

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Ordered Grantatta

AT BOARD MATTING

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Movember 23, 1927

Dear Governor Strongs

This will acknowledge receipt of your letter of November 21. in reference to the amount of gold exports that could be offset by purchases of securities, together with a memorandum prepared by your statistical department.

I have read your letter very hurriedly and have found it most interesting. Tomorrow is a holiday and I will have an opportunity to study it a little more carefully. Many thanks for your thoughtfulness in forwarding the information to me.

With kind personal regards, I am

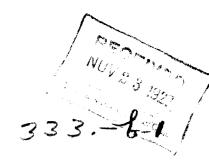
Yours very truly,

Meliziodi III de Londe

R. A. Young, Governor.

Mr. Benjamin Strong, Governor, Federal Reserve Bank, New York City, N. Y.

FEDERAL RESERVE BANK OF NEW YORK



November 21, 1927.

Dear Governor Young:



At the meeting of the Federal Reserve Board and the Open Market Investment Committee recently the question was raised as to how much gold could be exported from this country without forcing additional borrowing on member banks, and thus tightening money conditions. To put it another way, the question is how much gold exports could be offset by our purchases of securities. We have been making a little study of this problem, some of the results of which I am attaching herewith.

The answer appears to be that we could export not far from one billion dollars of gold, offsetting it with purchases of securities, before the reserve percentage of the Reserve System reached its legal minimum. The limiting factor, as the computation shows, is the requirement for collateral for Federal Reserve notes. Because of the fact that bills purchased and discounted now amount to only about 700 million dollars, all the rest of the collateral for Federal Reserve notes must be in the form of gold, and this ties up one billion dollars of gold against Federal Reserve notes, whereas the actual reserve requirement for these notes is only 40 per cent of \$1,700 million dollars, or 680 million dollars.

The export of one billion dollars of gold would still leave us a considerable elasticity in our domestic situation because borrowing by member banks, or additional purchases of bankers acceptances, would promptly provide additional collateral which would release gold, and gold could also be absorbed from circulation. If we assume that member banks would be allowed to

see menio "/28/27 from Smead see aus "/23/27

Digitized for FRASER http://fraser.stlouisfed.org/ Eederal Reserve Bank of St. federal reserve bank of New York _____ Governor Young, No mber 21, 1927.

borrow to pay for gold exported, or assume a considerable increase in our holdings of bills, it would be possible to export another one billion dollars in addition to the first billion. This could only be done at the cost of firm money conditions as member bank borrowing was increased.

This raises, of course, the whole question as to our future policy with regard to gold. I think we would all agree that looking into the future we want to give ourselves a considerable amount of leeway; that is, we want to have sufficient gold so that it is possible at any time, by the purchase of securities, to keep money rates moderately easy when this condition seems to be required by the business situation or the world financial situation. In other words, we want in the future to be able to do exactly what we are doing this autumn.

As we look into the future, it is reasonably clear that the normal increase in business from year to year, about 4% a year, will require some additional amounts of currency and some additions to bank reserves, so that our basic need for gold reserves will increase. There are so many complicating factors like the increase in time deposits, the replacement of currency transactions by check transactions, the policy to be pursued with respect to national bank notes, etc., that it is difficult to predict how much the requirements for gold reserves will increase year by year; though it will be of value to estimate these tendencies as closely as we may.

The principal conclusions as to the present situation, it seems to me, may be summarized somewhat as follows:

- 1. Any large loss of gold beyond, say, a few hundred million, and the persistence of conditions indicating further losses, should raise the question as to whether our policy should not be changed so as to protect us from further large losses.
- 2. We have at present sufficient leeway in our gold supply so that we can well afford to lose up to at least two or three hundred million further, without retarding or hampering this country's business.

#5

federal reserve bank of new york . Governor Young, 21, 1927.

- 3. Our position is sufficiently elastic so that we can at least well afford to allow the world's output of gold to go to other countries for many years to come.
- 4. The problem of the world's future gold supply and the gold policies of different countries is one to which we should give most careful continuous study, with a view to avoiding disturbance by a capricious gold policy on the part of any country. There is plenty of gold in the world if it is intelligently dealt with.

We are making some further studies along these lines, the results of which I hope to send you from time to time.

Very truly yours,

BENJ. STRON

Honorable Roy A. Young, Governor, Federal Reserve Board, Washington, D. C.

enc.

MISC. 3.1 60M 7-26

FEDERAL RESERVE BANK OF NEW YORK

À

OFFICE CORRESPONDENCE	DATE November 16, 192
To Dr. Burgess	Subject: Amount of gold that could be exported without causing a shortage of
FROM H. V. Roelse	
FROM I. V. NOELSE	gold in the United States.
The amount of gold that could be	exported without seriously affecting
money conditions in this country appears to	be a little over 850 million dollars.
This figure is arrived at as follows:	
Total Reserves, all Federal Reserve Banks .	\$3,050,000,000*
Reserve requirements, all F. R. Banks	
Security for note circulation,	700 000 000
Present note circulation \$1 Less bills and discounted	, 700,000,000
notes available as collateral	700,000,000
G-13	
Gold required as collateral for note circulation	## 000 000
note circulation	\$1,000,000,000
Reserve against deposits	822,000,000
(55% of \$2,350,000,000)	
Emergency allowance for additional	
note circulation (100%)	200,000,000
1000 021 022 001011 (100 /0)	200,000,000
Emergency allowance for reserve	
against additional deposits	
(35% of \$100,000,000)#	35,000,000
Total gold requirements	2,057,000,000
Surplus available for export	\$ 993,000,000
To avoid drawing down the reserve depositions securities would have to be purchased by the exports.	
* After allowance for earmarking now in pro-	· •
# The \$100,000,000 to be provided by securi	ty purchases by the F. R. System

MISC. 3. 1 60M 7-26

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE	DATE November 16, 192
ToDr. Burgess	SUBJECT: Amount of gold that could be
FROM W H. V. Roelse	exported without causing a shortage of gold in the United States.
_	2 -
The emergency allowances indicate ordinary fluctuation in demand.	ed above should provide for any
A considerable additional amount be exported before the reserves of the Feligal minimum, through the withdrawal of the event of heavy borrowing at the Reservation like that of late 1919. This	gold from circulation, but only in rve Banks which would produce a money
Reserves of all F. R. Banks	
Reserves after withdrawal of \$1,000,	000,000 from circulation \$4,050,000,000
Gold exports	
Reserves after exports	\$2,017,000,000
Required Reserves	
Collateral required for note circular Necessary note circulation (\$1,700,000,000 plus \$1,000,000 to replace gold, and \$200,000,000 emergency allowance) Less bills and discounted notes	\$2,900,000,000 0,000 avail-
Additional discounting to the amount of \$1,040,000,000 would required.)	Anniamienta, reditor ra um reditor ra ratuation becombination
Gold reserve - 40% minimum - recollateral for note circulation	quired as
Reserve against deposits (35% of \$2,650,000,000, which is	ncludes emergency allowance) 857,000,000

Total required reserve

\$2,017,000,000

Young (w

FOR SPECIAL CIRCULATION

INITIAL AND RETURN TO

JRF Jana

Mr. McIntos

Mr. Cumnin

OF NEW YORK

November 15, 1927.

RY'S OFFI

Dear Governor Young:

I have received your letter of November 12 and am glad that you found the information contained in mine of the 10th, with regard to open market transactions, of interest.

Since that time there has been but a small increase in the holdings of Government securities in the System Account. Including the transactions completed today, the par value of the securities held on November 15 will be approximately \$415,000,000, against \$375,000,000 at the middle of last month, the increase of \$40,000,000 representing purchases to offset the \$50,000,000 of gold earmarked for one of our foreign correspondents.

A recapitulation of the important gold export transactions that have been consummated during the past month, is as follows:

> Earmarked for foreign correspondent...\$50,000,000 Shipped to Brazil, November 4...... 11,000,000 Earmarked for Poland, November 10.... 10,000,000 Shipped to Brazil, November 11...... 11,000,000

> > \$82,000,000

It is also expected that further earmarkings or shipments will be made this month:

Total.....\$102,500,000

No further offsetting purchases have as yet been made to cover these transactions. as the satisfactory price of sterling (4.87 7/16 for cables today) and the favorable state of the money market have not seemed to justify such action.

In other words, taking into consideration gold already earmarked or shipped,

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Ree ans "/16/27

Governor Y ng.

CEDERAL RESERVE BANK OF NEW YORK

we are now upwards of \$42,000,000 short of making offsetting purchases, with \$20,000,000 outstanding commitments yet to be executed. The recent activity in the open market account has, therefore, been confined, in the main, to changes in maturities. The present state of the Government security market afforded a good opportunity to dispose of the longer maturities, and, with the approval of the Open Market Investment Committee, we have sold (at a profit) all of the $3\frac{1}{2}\%$ 3-5 year Treasury notes and Fourth Liberty Loan $4\frac{1}{4}\%$ bonds, aggregating some \$79,000,000, replacing these with shorter maturities, mostly the new 3 1/8% Treasury certificates. This will result in the total holdings in the account being in short-time paper maturing within the next ten months, as follows:

4 1/2% Dec. 15, 1927 T/N....\$ 28,195,500 3 1/4% March 15, 1928 C/I.... 69,548,500 3 % March 15, 1928 C/I.... 87,399,000 3 1/8% June 15, 1928 C/I.... 53,500,000 4 1/4% Sept. 15, 1928 3rd L/L... 177,181,000

\$415,824,000

As to our future program, a good deal depends upon how the operation of redeeming the Second Liberty Loan bonds works out. It looks now as though the Treasury might run something of an overdraft for a number of days, which would tend to keep money moderately easy, but it also seems possible that toward the latter part of this month money conditions might tend to be considerably firmer and it might be desirable to offset more fully the amounts of gold exported or earmarked. We shall continue to watch carefully the condition of the money market, and will keep you informed as to the situation.

Very truly yours.

Chairman, Open Market Investment Committee.

Honorable R. A. Young, Governor, Federal Reserve Board, Washington, D. C. 27.

333.41

November 12, 1927

Dear Governor Strong:

This will acknowledge receipt of your letter of November 10, giving detailed information in reference to Open Market matters.

I appreciate your action in forwarding this information and hope that a letter of this kind can be sent to me each week.

Yours very truly,

(Signed) R. A. Young R. A. Young, Governor.

Mr. Benjamin Strong, Governor, Federal Reserve Bank, New York City, N. Y.

see ans "/15/27

our off

FOR SPECIAL CIRCULATION

INITIAL AND RETURN TO SEGRED Y'S OFFICE

OF NEW YORK

November 10. 1927.

McIntosh

Dear Governor Young:

In accordance with our conversation, I am writing you something of open market matters and will do so at frequent intervals, if you de-Details of the activities of the Open Market Investment Committee and the changes in the holdings of Government securities are as usual, contained in the weekly report of the secretary of the committee, which is regularly sent you.

You will observe that there has been a gradual increase in the Government security holdings during the past few weeks. As you know, these increases have been due to purchases to partially offset the current earmarking of gold, amounting in all to \$50,000,000, for a foreign correspondent. The following will show such recent changes:

Approximately

Holdings of Government securities in account, October 19.....\$375,000,000

Purchases during week ending Oct. 26.. 12,000,000

Nov. 2.. 18,000,000 Nov. 9.. 6.500.000

Making a total of......\$411,500,000

From these figures you will note that, so far, offsetting purchases of \$36,500,000 have been made against \$45,000,000 of gold already earmarked. Further purchases of Government securities will gradually be made to offset the total of \$50,000,000.

see aus "/12/27

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In addition to the earmarked gold for French account, shipments to Brazil, amounting to \$36,500,000, and to Poland, amounting to \$15,000,000, a total of \$51,500,000, are to be made this month. About \$11,000,000 has already gone forward to Brazil, and it is expected that the total going to both Brazil and Poland will be shipped between now and November 30. No purchases have as yet been arranged as an offset to these latter prospective shipments, and we are inclined to await developments before doing so. At the moment, therefore, we have deferred offsets to \$8,500,000 on account of the French and \$11,000,000 on account of the Brazilian transactions. The shipment of \$31,500,000 to Argentina was not entirely offset, either.

In our view, the continued steady rates for money and the strength of sterling, which closed yesterday at $4.87\frac{1}{4}$, justifies this delay in further buying of Governments.

Very truly yours,

Rue: Arrong

BENJ. STRONG, Chairman, Open Market Investment Committee.

Honorable R. A. Young, Governor, Federal Reserve Board, Washington, D. C.

Woted 17 1927

From report of Open Market Investment
Committee for peri October 6
to October 12, 1927, inc usive.

SYSTEM PURCHASES OF BANKERS ACCEPTANCES

333.61

Purchases of bankers acceptances since the beginning of the year.

1927

10/12/27

Bil	ls	Acqui	red

	, service and the service and	:
Boston	\$ 91,448,000	\$ 88,299,000
New York	295,612,000	297,970,000
Philadelphia	89, 528, 000	89,064,000
Cleveland	110,040,000	110,928,000
Richmond	88,926,000	90,718,000
Atlanta	49,566,000	49,081,000
Chicago	159,191,000	159,685,000
St. Louis	60,271,000	60,569,000
Minneapolis	48,452,000	49,602,000
Kansas City	67,236,000	68,371,000
Dallas	49,088,000	49,877,000
San Francisco	80,547,000	75,741,000
Total	\$1,189,905,000	\$ 1,189,905,000

Form 175, 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date September 30, 1927.

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Subj

At a meeting of the Federal Reserve Board held on May 5, 1927, Governor Strong reported verbally arrangements being made to purchase \$60,000,000 of gold from the Bank of France, to be held by the Bank of England for the New York bank's account. The following is an excerpt from the minutes of that meeting:

"At this point, Governor Strong of the Federal Reserve Bank of New York, entered the room and advised the Board that the Bank of France had contemplated and made arrangements to ship \$90,000,000 of gold to the American Exchange Irving Trust Company of New York City, that \$12,000,000 of the gold had been received by the member bank and \$18,000,000 is now in transit. He stated that the Federal Reserve Bank of New York has about completed an arrangement whereby the balance of the gold not yet shipped (\$60,000,000) would be sold to it by the Bank of France and held for the Federal Reserve Bank, properly earmarked, by the Bank of England. He also referred to a telephone conversation this morning with Deputy Governor Harrison of the Federal Reserve Bank of New York, regarding impending arrangements for stabilization of the Polish Currency."

Ho action was taken by the Federal Reserve Board at this meeting.

The Board has in its files a letter from the Secretary of the Governors' Conference, dated May 24, 1927, enclosing a copy of the minutes of the meetings of the Open Market Investment Committee held in Washington on May 9th, 11th and 12th, and a copy of the preliminary memorandum relative to Open Market policy which was submitted to the Governors' Conference in connection with the Committee's report. The Governors' Conference was in session in Washington during the period from May 9th to 12th.

The minutes of a meeting of the Open Market Investment Committee held in Washington on the morning of May 9th show that the Secretary read the preliminary draft of the memorandum referred to above and that it was the opinion of the Committee that copies of the memorandum, with suggested amendments, should be submitted by the Chairman of the Committee to the Federal Reserve Board for its consideration in order to familiarize the Board with the factors which would be in the minds of the Committee later in preparing its report. The minutes of a meeting of the Open Market Committee held on the afternoon of May 9, 1927, that the Committee considered a redraft of the preliminary memorandum containing the amendments agreed to at the morning meeting, and that the Chairman of the Committee was requested to transmit seven copies of the memorandum as amended to Governor Crissinger for the members of the Board, with advice that the Committee would be glad to meet with the Board and discuss the memorandum any time suitable to its convenience. According to the minutes of said meeting, copies of the amended memorandum were submitted to Governor Crissinger at 115pm, immediately following adjournment of the afternoon meeting of the Committee.

A copy of the preliminary memorandum referred to is attached hereto,

from which the following is quoted:

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date

10 _____

Subject:___

From

_2 _

"During the last part of April, the Bank of France recovered approximately \$90,000,000 of gold from the Bank of England by the repayment of its credit to the Bank of England. Of this \$90,000,000, \$12,000,000 arrived in New York last week, \$18,000,000 is still on the water, and \$60,000,000 was purchased by the Federal Reserve Bank of New York on May 6 and is now held by the Bank of England under earmark for account of the New York bank. In addition to this Bank of France gold, \$2,500,000 has recently been imported from Australia, and another \$2,500,000 more is now on the water from Australia and expected to arrive in this country this week

"A somewhat disturbing factor arose in the probability of the importation and sale to the Federal Reserve Bank of New York of the \$90,000,000 of gold, negotiations for the purchase of which had been concluded by one of the New York member banks from the Bank of France. It was learned that space had been reserved on the steamers and arrangements had been made for shipping the entire amount of gold; in fact, one shipment was about to arrive in New York, and others were being loaded. In view of this situation, after consulting with all members of the Open Market Investment Committee and with the Federal Reserve Board by telephone, it was arranged to purchase from the Bank of France all of the gold - nearly \$60,000,000 - which had not been shipped, and to sell the Bank of France a like amount of the September maturity of certificates of indebtedness held in the Open Market Investment account. By this arrangement, the money market status remained unchanged, except as to the gold which had already been shipped, leaving the committee in position to determine later at its meeting whether these securities should be replaced or not. Securities were sold to offset \$9,000,000 of the \$12,000,000 already arrived, but no arrangements have been made for sales to offset the balance of the gold which will arrive from London and from Australia, amounting in all to about \$20,000,000. With the sale already made and further sales, if made to offset further gold arrivals, the securities remaining in the System's portfolio account will be a little over \$100,000,000, too small an amount to afford security against possible future developments. This will be appreciated, for example, if the \$90,000,000 now purchased had arrived at a time when we had no portfolio of government securities available. It is clear, therefore, that the committee must from now on give careful attention to meeting this gold problem, either by increasing its portfolio in anticipation of future developments, or by adopting other measures. The method of doing so should be determined with regard to whether the time has or has not arrived when the Federal Reserve System can afford to put new funds in the market, the effect of which would be 7to reduce the System's holdings of bills. There are various possibilities for dealing with the gold problem as a whole which have never heretofore been discussed in the Committee's report and which are now submitted simply for discussion. None of them are recommended at this time, but are intended simply as a summary of all possibilities."

Digitized for FRASE to reduce the borrowings of member banks, principally in New York, and possibly http://fraser.stlouisfed.org/

ederal Reserve Bank of St. Louis

Office Correspondence

FEDERAL RESERVE BOARD

Date.	-		-	-	and the second s	

July .

To _____

Subject:____

From_

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The first of the several possibilities referred to in the preliminary memorandum is as follows:

"(1) The committee could replace the securities sold to the Bank of France. The immediate effect would be to reduce the amount of member bank borrowings in New York, which are now running on the average at from \$100,000,000 to \$150,000,000."

A second meeting of the Open Market Committee was held on the Afternoon of May 9, 1927, attended by six members of the Federal Reserve Board. The minutes of that meeting show that there was a long discussion by various members of the committee and the Federal Reserve Board of the preliminary memorandum previously distributed among the members of the committee and the Federal Reserve Board, and that Governor Strong explained that this preliminary memorandum did not embody any recommendations but merely raised points for discussion with the Reserve Board which would enable the committee later to file a report with definite recommendations. The meeting adjourned with the understanding that the Committee would submit its final report to the Federal Reserve Board later on in the week.

A report of the Open Market Committee dated May 11, 1927, was submitted to the Board at a meeting held on May 12, 1927. In this report, the Open Market Committee made the following recommendations: of policy for the period ending August 1, 1927:

"(1) That no further sales of system securities be made in order to offset arrivals of gold from abroad now known or antici-

pated.

"(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 '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

Office Correspondence

FEDERAL RESERVE BOARD

Date		 	
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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."

At the May 12th meeting of the Board, following submission of the above recommendations, 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 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 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 memorandum 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. 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 o ontemplated 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. Upon motion, the recommendations of the Open Market Investment Committee were received by the Board and made special order of business for a date to be fixed by the Governor after conference with the Chairman



Digitized for FRASER of the Board.

Form No. 421

From

Office Correspondence

FEDERAL RESERVE BOARD

Date_						
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To _____

Subject:__

-5-

The Board reconvened during the afternoon of May 12th, and during that session 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. 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 anlysis there of 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. 11

The only action taken by the Board at this meeting was with regard to how the gold should be reported, and to reaffirm a previous position taken that Federal reserve banks should not regard as part of their reserves gold earmarked in forsign countries. Up to this point, no formal action had been taken, according to the minutes, approving of the purchase of the gold,

At a meeting of the Board held on May 13, 1927, consideration was given to the recommendations of the Open Market Investment, which had been submitted at the meeting held on the previous day, and in this connection, the entire record as it appears in the minutes of the Board is quoted below:

"At this point, the Secretary of the Treasury entered the meeting and took the Chair.

"The Board then proceeded with further consideration of the recommendations of the Open Market Investment Committee, submitted at the meeting yesterday and on which no action was taken at that meeting.



Office Correspondence

FEDERAL RESERVE BOARD

From

Subject:___

-6-

"Mr. Hamlin moved that the Board approve the recommendations of the Open Market Investment Committee contained in the report of the Committee dated May 11, 1927.

"Mr. Miller stated that he would prefer to have action on the recommendations of the Committee deferred until the Board has had an opportunity to discuss the general question of open market policy with the Federal Advisory Council at their meeting on next Friday. He stated, however, that if the Board did not believe it desirable to defer action he wished to present for the Board's consideration, as an alternative for Mr. Hamlin's motion, a memorandum prepared by him as the basis of a letter to the Open Market Investment Committee regarding its report.

The Chairman pointed out the desirability of establishing a policy which he stated could, of course, be changed by the Board at any time if developments warranted. He stated that he believed unless there was some particular reason for not doing so the Board should concur in the recommendations of the Open Market Investment Committee, and pointed out that if the Board did so, and following the meeting of the Federal Advisory Council, wished to change that policy there was no reason why an amendatory action should not be taken by the Board. He suggested that the Board might approve the recommendations of the Committee and in advising of such approval state to the Committee that the question of open market policy will be kept under consideration and that the Board upon review might wish to take further action.

"Mr. Platt then moved that Mr. Hamlin's motion be amended to read as follows:

"Resolved, that the Federal Reserve Board approve the report and recommendations of the Open Market Investment Committee, with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the time limit mentioned."



"Mr. Hamlin accepted the amendment moved by Mr. Platt and by unanimous consent withdrew his original motion.

"Mr. Miller then read to the Board the following memorandum prepared by him and as a substitute for Mr. Platt's motion moved its adoption by the Board as the basis of a letter to the Open Market Investment Committee;



Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date			
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Subject:___

From___

-7 -

Open Market Committee dated May 11, 1927, for the period ending August 1:

- (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.

With respect to recommendation No. 1, it does not appear to the Board that the next few months will show gold imports to the United States in any such volume as would indicate the necessity or desirability in existing circumstances of an off-setting operation by the sale of System securities. It has, therefore, nothing to suggest by way of modification of the course of action outlined by the Committee, unless there should be a marked change in the situation in which case the matter should be reconsidered. The Committee's recommendation is, therefore, approved.

With respect to recommendation No. 2, it is the opinion of the Board that the System's Special Investment Account should, somer or later, in accordance with the policy which has governed the operation of the Account in the past, be replenished by the purchase of an amount of securities that would bring up the total holdings in the Account to not less than \$200,000,000.

It is, however, the opinion of the Board that the present situation is not a favorable one for such an operation and that the resumption of purchases of securities for the Special Investment Account should be deferred until such time as it may appear that such purchases will have a desirable stimulating effect upon trade, industry or agriculture. The country is now entering a period of interseasonal trade lull with the demand for oredit for commercial use slackening. The only highly active market in the country is the securities market. There is accumulating evidence of speculative excesses, which in part has been reflected in recent weeks in a great growth of brokers' demand loans. It is thought not to be desirable to stimulate these by a reduction of the cost of money in the New York market such as would result from the purchase during the next two months of from \$100,000,000 to \$150,000,000 of securities for the System account.

Office Correspondence

FEDERAL RESERVE BOARD

Date.	 	 -

From____

Subject:___

-8-

It is the view of the Board that the movement of business, credit, gold, money rates and other factors bearing upon the credit and open market policy of the Federal Reserve System should be carefully and constantly watched, in order that when action is taken to replenish the Special Investment Account it may be done with a minimum of undesirable stimulation.

For its part the Board will follow coming developments affecting open market policy with care and will keep in touch with the Committee in order that there may be a prompt exchange of views and suitable action when conditions warrant. For the present the Board does not think the situation favorable to a securities-purchase operation and, therefore, withholds approval of the recommendation that the Committee at this time be given authority to purchase securities between now and August 1 to an amount sufficient to bring up the System's account to \$250,000,000."

After a detailed discussion, Mr. Miller's substitute motion was put by the Chair and lost, the members voting as follows:

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

Mr. Platt's motion was then put by the Chair and carried, the members voting as follows:

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

Mr. Cunningham then made the following statement:

"With the sincere hope that the view expressed

Office Correspondence

FEDERAL RESERVE

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in Mr. Platt's resolution that the securities which the open Market investment committee recommends be purchased will be accumulated gradually up to August 1st next, I am voting in favor of the motion."

The Board then approved the following draft of letter to the Chairman of the Open Market Investment Committee advising of the action taken by the Board with respect to the Committee's recommendations:

"At the meeting of the Federal Reserve Board this morning, consideration was given to the report of the Open Market Investment Committee, dated May 11, 1927, in which the Committee recommended: "(1) That no further sales of System securities be made in order to offset arrivals of gold from abroad now known or anticipated" and "(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 undus 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 '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."

"The Board voted to approve the report and recommendations contained therein, with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the period of time mentioned."

At this point, May 13th, the account stood at approximately \$136,000,000, having been reduced during the previous week about \$65,000,000, by reason of sales of approximately \$60,000,000 of securities to the Bank of France and \$5,000,000 for reasons not recorded.

On June 8th, the account stood at \$316,050,300.

On June 9th, Governor Strong addressed a communication to Governor Crissinger, reading as follows:

"It will interest you to have a resume of the transactions in the open market which have been necessarily quite active because of the large amount of securities which we are called upon to buy.

"As you have been advised we have made purchases of a total of \$100,000,000, offsetting exactly that amount of gold earmarked for account of one of our foreign correspondents, and that part of the transaction is concluded.

"We have also concluded purchases aggregating a total of

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\$115,000,000 for delivery on or before June 15, to replace all of the maturities held in the System account and for the account of foreign correspondents maturing on that date. In addition to that we have purchased in round figures \$16,000,000 for the System's open market investment account, this purchase having been made in connection with the adjustment of purchases currently being made for account of the Treasury Department, and so far that is all that has been done pursuant to the recommendations of the Open Market Investment Committee recently approved by the Faderal Reserve Board.

"Preparations for the June 1 financing, occurring simultaneously with the holiday at the end of May, necessitated somewhat heavier borrowing here than would ordinarily be the case, and the rates in the money market showed a tendency to stiffen somewhat, but we believe that the effect was only temporary and that the return flow of funds from the interior and of currency, coupled with the purchases which we have made, will leave rate conditions not greatly above where they were during the latter part of May.

"The present situation is that the member banks in New York City owe us about \$50,000,000 and that the dealers owe us an additional \$50,000,000 under sales contract agreement. Between now and June 15 this indebtedness of the banks and market to us may be somewhat further reduced. For a few days after the 15th as usual money will be easy, as Treasury maturities are in excess of tax payments, but after three or four days large tax payments will come cut of the market. The amount of funds available to the market will be reduced from the present situation by approximately \$65,000,000 as a net result of June 15 maturities. That means that the New York banks and market will have to be borrowing from us at least \$150,000,000, and, on top of this, will come the usual extra demand for credit in connection with the end of the half year. This will give us a situation that we will have to think about and watch carefully. Further purchases will then be desir-

Governor Strong's communication of June 9th was brought to the attention of the Board at a meeting held on June 10th. No action was taken by the Board. In presenting the letter, Governor Crissinger stated that Governor Strong advised him yesterday (June 9) over the telephone that the Federal Reserve Bank of New York had purchased from the Reichsbank and earmarked abroad \$2,600,000 additional of gold, making a total of gold earmarked abroad of between \$62,000,000 and \$63,000,000. Governor Crissinger further stated that Governor Strong this morning (June 10) advised him that conditions are so shaping themselves as to probably make it necessary for the Federal Reserve System to convert this earmarked gold into earning assets through the purchase of bills abroad.

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At a meeting of the Federal Reserve Board held on June 14th, there was presented a letter dated June 11th from the Deputy Governor of the Federal Reserve Bank of New York, with reference to the purchase of \$2,600,000 of gold by the Federal Reserve bank from the Reichsbank, which was earmarked at the Bank of England, the Reputy Governor transmitting copies of communications addressed to other Federal Reserve banks regarding the transaction and their participation therein. At this meeting, the Governor also "reported a telephone conversation with Governor Strong during which he was advised of the sale to the Bank of France of approximately \$60,000,000 of gold which the Federal Reserve Banks have held earmarked at the Bank of England. The Governor reported that the sale was made at a price approximately \$85,000 above that paid for the gold which is to be taken down by the Bank of France at the rate of \$15,000,000 a week, with an option to the Bank of France to take \$30,000,000 the first week. The Federal Reserve Banks in payment will receive a deposit credit at the Bank of England, at interest, which is to be invested in Sterling bills as and when such bills are available. The matter, he stated, was submitted to the directors of the Federal Reserve Bank of New York and unanimously approved by them and will be made the subject of a formal communication to the Board in the course of the next day or so. " Following the Governor's report, a general discussion ensued as to the position of the United States in the world gold market and the policy involved in the purchase of foreign bills reported by the Governor.

At the meeting of the Board held on June 15th, the Governor presented a letter dated June 14th from the Deputy Governor of the Federal Reserve Bank of New York, transmitting for the information of the Board copies of telegram and letter addressed to the Governors of all other Federal reserve banks, concerning the sale to the Bank of France of approximately \$60,000,000 of gold held under earmark in the Bank of England for account of the Federal reserve banks, as reported informally by the Governor at the meeting of the Board on June 14th. Thereupon ensued a discussion as to the authority of the Federal Reserve Board in connection with transactions of this kind entered into under the provisions of Section 14 of the Federal Reserve Act. The relations between the Federal Reserve Bank of New York and the Bank of England were also discussed, and by direction of the Board the Secretary opened and read to the Board the formal agreement between the New York bank and the Bank of England which has been carried in the files under seal. He also read the action of the Board at its meeting on December 19, 1916 in voting "That the Federal Reserve Bank of New York be authorized to appoint as its correspondent and agent The Bank of England of London, England, and that it be further authorized to open and maintain banking accounts with and for said correspondent and agent for the purpose of purchasing, selling and collecting bills of exchange, in accordance with the provisions of Section 14 and other provisions of the Federal Reserve Act, as amended; and for such other purposes as may be permitted under said Federal Reserve Act, as amended."

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Following the discussion, it was voted to request the Law Committee to report to the Board with respect to what limitations and restrictions the Board is authorized to impose on operations conducted by the Federal Reserve banks under Section 14 and as to the Board's general authority in such transactions. In this connection, Mr. James requested that the Committee include in its report an opinion as to the authority of the Federal Reserve Banks in connection with the purchase of foreign bills, to impose a commission such as was imposed on the National Bank of Belgium and the Bank of Feland in connection with the agreements entered into with those institutions by the Federal Reserve banks to purchase prime bills bearing their guarantee.

On June 15th, the account stood at \$244,256,300, having been reduced during the week from about \$316,050,300, the point at which it stood on June 8th. Operations over this period are referred to in the following letter, dated June 16th, addressed by Governor Strong to Governor Crissinger, and presented at a meeting of the Board held on June 17th:

"Referring to my letter of June 9 in regard to transactions in the open market there has been some change in the position due to the unexpectedly large overdraft of the Treasury in connection with June 15 transactions which leads me to write you further as to the position of the money market and as to prospective purchases by the Open Market Investment Committee.

"We had calculated, with such information as we usually have, that the amount of the overdraft would be, in round figures, \$180,000,000. It turned out to be \$240,000,000, the disbursements for the Treasury's account being larger than the preliminary estimates. Against this large disbursement pending tax collections we distributed \$104,000,000 of participations to various member banks, leaving the net amount of funds put into the market as a result of Freasury transactions \$136,000,000. This means, of course, that there must be withdrawn from the money market between now and early next week not only the \$136,000,000 which will repay the government's temporary certificate of indebtedness (net) but also possibly \$30,000,000 more to restore the government's working balance in the Reserve banks. In other words, on top of borrowings from us aggregating between \$25,000,000 and \$50,000,000 at the present time, the market will lose, say \$165,000,000, and we anticipate that the borrowing in all forms at this bank next week for a time may exceed \$200,000,000, and this, of course, will be in the week prior to the double holiday when we have to meet quite a heavy demand for currency, a demand on the part of those who practice window dressing at semi-annual periods, as well as a demand arising from the very heavy July 1 interest and dividend disbursements.

"One hundred million dollars of the securities now held in

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the open market account were purchased to offset the loss of that amount of gold earmarked for foreign account as described in my letter of June 9, so we have only realized about \$15,000,000 of the increase in the account which was contemplated when the committee and the Board discussed the matter at the May meeting. So that, to realize fully the aims we hadin mind at that time, we might still purchase an additional \$100,000,000 between now and August 1.

"Having in mind, however, the size of the Stock Exchange Loan account and the expressions of views contained in your letter of May 13, our directors to-day, after a full discussion, took the view which is held by the officers of the bank that it might be well to defer further purchases until possibly after the first of July, even though in the meantime money rates might advance somewhat in the general money market.

"This was the recommendation of the officers of the bank after full discussion of the situation, and we thought we should bring it immediately to the attention of the Board. We are, however, prepared to act promptly in making further purchases in case money market conditions indicate the need for it.

"I hope you will be good enough to bring this letter to the attention of the Board as it somewhat elaborates the report contained in my letter of June 9."

At the meeting of the Board on June 17th, following presentation of the last quoted letter from Governor Strong, discussion ensued as to the action of the Board at its meeting on May 13 in approving a recommendation of the Open Market Investment Committee "That it shall be the policy of the Committee between now and August 1st 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. Attention was called to the fact that the System account now (June 17) amounts to approximately \$235,000,000 and that regardless of the manner in which the account was built up the authority granted by the Board has been exercised and the aims which the Board had in mind have been realized. After discussion, it was understood that there would be prepared and submitted to the Board at its next meeting draft of a letter to Governor Strong along the lines of the discussion at this meeting.

At a meeting of the Board held on June 20th, Governor Crissinger, in accordance with the action of the Board at its meeting on June 17th, submitted draft of letter prepared by Mr. Miller replying to Governor Strong's letter of June 16th, reading as follows:

"Receipt is acknowledged of your letter of June 16th, supplementing your letter to me of June 9th, and commenting upon the

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changed position of the money market due to the unexpectedly large overdraft of the Treasury in connection with June 15th transactions. I note your views regarding the possibility of further purchases by the Open Market Investment Committee and note the opinion of the officers of your Bank concurred in by the members of your Board of Directors that it might be well to defer any further purchases until after the first of July, even though in the meantime money rates might have advanced somewhat in the general money market.

"Your letter was brought to the attention of the Board at its meeting this morning, and there was a discussion of several of the matters mentioned. Particular reference was made to your statement that the Open Market Investment Committee has realized only about \$15,000,000 of the increase in the System's account which was contemplated when the Committee and the Board discussed the matter at the time of the Governors' Conference, and the further statement that 'to realize fully the aims we had in mind at that time, we might still purchase an additional \$100,000,000 between now and August 1st.'

"Such purchase of an additional \$100,000,000 would result in an enlargement of the System's investment account beyond the limit approved by the Board at its May 13th meeting. Action of the Board at that time was to approve the Committee's recommendation to purchase sufficient additional short term government obligations to bring the total of the investment account up to \$250,000,000.

"The System's special investment account amounts at this time to approximately \$235,000,000, leaving a leeway for future purchases of \$15,000,000 to reach the limit previously approved.

"In view of the contingencies pointed out in your letter and such other information as the Board has regarding money market conditions, it may later on be advisable to make additional purchases of securities on System account. The enlargement of the System's account in the near future, however, raises a new question, and the matter should, therefore, be submitted to the Board in the usual course."

In presenting the draft of letter just quoted, the Governor stated that "he understood from a telephone conversation with Governor Strong that a further letter on this subject is being forwarded to the Board, and action on the letter prepared by Mr. Miller was therefore deferred.

At a meeting of the Board held on June 21st, Governor Crissinger presented the following letter from Governor Strong, dated June 20th, which Governor Crissinger had stated at the meeting on June 20th was being forwarded to the Board:

"In our telephone conversation on Friday you mentioned that some members of the Board felt that the purchases already con-

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cluded by the Open Market Investment Committee had completed the amount which was recommended by the committee to the Federal Reserve Board in its last report, and that the position should now be reviewed again to determine whether any further purchases were justified.

"We have proceeded in making these purchases in accordance with my understanding of the policy agreed upon by the Board with the Open Market Investment Committee in the past, that large movements of gold such as we have recently experienced are, as a matter of course, to be offset by purchases or sales of Open Market Investment Committee holdings. I think you will find this general view of the committee's policy referred to in previous reports of the committee, three of which I have before me, that is, November 8, 1926, September 10, 1926, and the last meeting held in May. The records of the earlier meetings of the committee are, as I recall, even more specific on this point, but they are not before me as I dictate this letter.

"To review the present situation, when the Bank of France secured the return of \$90,000,000 of gold in London we negotiated for its purchase, as you know, on very short notice in order to avoid its getting into the country when, having once crossed the exchange barrier, it would form a permanent part of our gold reserves.
\$30,000,000 we were unable to arrest in London, but we partly offset the effect of its addition to bank reserves by sales, as I recall, of about \$15,000,000 of the System's securities. The purchase of \$60,000,000 in London was effected by our selling a like amount of the System's securities to the Bank of France and so avoiding the expansion of bank reserves which would have resulted from our paying for the gold without reducing our investment account. While the effect of this was to give the Bank of France dollar balances for \$90,000,000 in New York, about \$75,000,000 or thereabouts of this gold was actually offset by sales of securities.

"Now exactly the reverse operation has taken place as to \$100,000,000, because the Bank of France has withdrawn \$100,000,000 of their deposits with New York banks, transferred them to us, and purchased that amount of gold, thus effecting a reduction of bank reserves in this city of \$100,000,000. As explained to you by telephone, this made it necessary to offset the loss of reserves by purchases of securities as rapidly as they could be made. Had we failed to do so we would have had a sharp advance in interest rates at a time when it would have caused inconvenience to the Treasury financing then under way and would have increased the limithood of even higher rates which we also expected after the June financing was concluded.

"As in previous similar cases we did not feel that these purchases formed a part of the \$115,000,000 authorized by the Board following the submission of the committee's report of May 9. In

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fact we felt that under that suth ority only \$15,000,000 of purchases had been effected and that the general scheme of the report to continue purchases up to \$250,000,000 before August 1, if money market conditions made that possible, clearly contemplates that regard for money market conditions and for the volume of borrowing in New York would be the guiding principle. Were this not the case the effect of this loss of \$100,000,000 of gold would be to entirely nullify the action of the Open Market Investment Committee and the Federal Reserve Board.

"As explained by telephone and in my last two letters on this subject, we are anticipating heavy borrowing this week, although the amount cannot accurately be forecast. It will furnish the opportunity to enlarge the committee's holdings of securities which the committee believes, and which we felt the Board believed, was a desirable thing to accomplish if it could be done without creating an undue ease of money, but the continued enlargement of the security loan account seemed to justify our delaying these purchases for a short time so as to see what effect a brief period of somewhat higher rates would have.

"We realize, as the Board doubtless does, that there has been a considerable speculation in stocks, although far less active and menacing in its proportions than that which had developed in either Berlin or Paris. Just as is stated in the committee's report and in my previous letters this situation will require careful scrutiny from day to day until the true position of the money market disclosed itself. But I am sure the Board has in mind that if a period of definitely higher rates now develops and no purchases are made practically all the bills in the market will come to the Federal Reserve Bank which might make it necessary for us to advance our bill buying rate, and that, in turn, make it necessary to advance our discount rate. Such action at this time we do not believe is justified, and our directors feel would be distinctly harmful.

"So, summarizing the position as it appears to be to-day, I should say that we are quite willing to watch the effect of some-what higher rates for a short period, but we believe it would be hazardous at this time to allow a general revision of the level of interest rates to occur, for the reasons -

(1) That it might force an increase in our bill rate and ultimately our discount rate,

(2) That such an increase would be detrimental to the business of the country,

(3) That it would have a tendency to depress the value of sterling and ultimately the continental exchanges, and possibly embarrass us by starting another gold import movement, and



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(4) That with the heavy refunding operations now under way and in prospect for the Treasury we believe that any general advance in the level of interest rates, unless necessitated by other impelling reasons, might have a detrimental effect upon the Treasury's plans which would be quite unnecessary.

"I have endeavored, by telephone and letter, to keep you and the members of the Board fully informed of these developments from day to day in the hope that what we are doing was fully understood and would meet with the Board's entire approval. If that is not the case may I ask you to let me know at once, as the situation is certainly one of sufficient importance to make it necessary that there should be no misunderstanding of the Board's action and the committee's policy."

Following the reading of the above letter, a detailed discussion ensued during which Mr. Miller read to the Board the proposed letter to Governor Strong prepared by him on which action was deferred at the meeting on June 20th. Mr. Miller also submitted to the Board certain suggestions for changes in the proposed letter in light of information contained in Governors Strong's communication of June 20th. During the discussion which ensued, Governor Crissinger was called from the meeting and upon his return stated the call was from Governor Strong who suggested that if members of the Board desired more detailed information regarding present conditions than is contained in his letters, he would be glad to come to Washington tomorrow (June 22nd) for an interview. At the request of the members of the Board, Governor Crissinger expressed to Governor Strong the desire of the members that he come to Washington. Action by the Board on Governor Strong's letter of June 20th was thereupon deferred.

Accordingly, Governor Strong came to Washington and attended a meeting of the Board held on June 22nd, at which all members were present, except Messrs. Platt and McIntosh. The minutes of the meeting held on June 22nd are as follows:

"Governor Crissinger stated that the meeting had been called for the purpose of discussing with Governor Strong in further detail the matters referred to in his letters to the Board of June 9th, 16th and 20th. The Board, with Governor Strong, then made an extended review of present and prospective conditions. Governor Strong reported upon the money markets, at home and abroad, and on the gold and exchange situation. During the discussion, it was brought out that if money rates should firm or rise it would be desirable to give relief to the situation through purchase of securities in the open market. The opinion was expressed by some members of the Board that authority to the Open Market Investment Committee to make such purchases up to \$100,000,000 already exists

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under the action taken by the Board on May 13th, as the \$100,000,000 of securities purchased since that time to offset gold exported to the Bank of France should not be considered as having been purchased under the Board's authority referred to. This opinion was not concurred in by all members of the Board.

Following the discussion, Mr. Hamlin submitted and moved adoption of the following:

'After hearing a report upon the money markets, at home and abroad, and of the gold and exchange situation, the Board authorize the Governor of the Board to advise the Open Market Investment Committee that it does not consider the \$160,000,000 of securities purchased by the Committee since May 13, 1927 as forming part of the authority granted to the Committee by the Board on that date.

Mr. Hamlin's motion being put by the Chair was carried, the members voting as follows:

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

In explanation of his negative vote, Mr. Miller stated that his view was already, in part, set out in the drafts of letters he had submitted for the consideration of the Board as the basis of a reply to Governor Strong's letters of June 9th, 16th and 20th.

He added, in further explanation, that open market purchases and sales of securities for System account were becoming the most important operating instrumentality of the Federal Reserve System for influencing the credit situation and he thought it very important, therefore, that the action of the Open Market Investment Committee should never rest upon inferential or implied authority, but that every considerable increase or dimunition of the System account should be considered as a separate matter by the Board, and made the subject of positive action.

With regard to the prospective credit situation, Mr. Miller said that he thought it not improbable that the later

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months of the year would show a tedency toward hardening of money rates. Should such prove to be the case he thought it would probably be advisable action for the Federal Reserve System, through open market purchases, to ease the credit situation; but he added that the true position of the money market has not yet disclosed itself and appropriate policy cannot be determined at this time.

For these reasons, he stated, he voted "no" on Mr. Hamlin's resolution."

During the period from June 22nd to the date of the next meeting of the Open Market Investment Committee held in Washington on July 27th, purchases were made for the account which increased the total from \$250,448,300 to \$265,998,300.

A meeting of the Board and the members of the Open Market Investment Committee was held in Washington on July 27th, and the minutes of said meeting read as follows:

"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 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 desir-

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able 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."

The minutes above quoted were written during recess, and upon reconvening, were approved by the meeting, following which it was moved and carried 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.

At this point, July 27th, when the account stood at \$265,998,300, the Committee had authority to increase the holdings in the account up to \$315,000,000.

During the period from August 15th to 19th, the following letters were exchanged between Governor Crissinger and Governor Strong:

"August 15, 1927.

My dear Governor Crissinger:

I am sending you a letter today as Chairman of the Open Market Investment Committee which I think explains itself, but wish to add something to it personnally so that you may understand the atmosphere.

There has been a considerable movement of funds away from New York. It resulted as you have observed in the money market remain-

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ing somewhat firmer than we had anticipated and it not only resulted in our purchasing somewhat more for open market account than I had expected, but in our doing so much more rapidly than had been anticipated. The transactions reported in my separate letter are simply routine and arose in connection with adjustments made in the various

accounts as explained.

We are about facing the need for a very considerable preparation for the September 15 financing. We hold for account of the Open Market Investment Committee and for account of our foreign correspondents something over \$200,000,000 of the certificates maturing September 15. If repayment of these were received from the Treasury without any offsetting purchases it would of course result in a very severe stiffening of money rates and a large shortage of reserves in New York, much the largest in fact that we have experienced in some years. In view of this fact we are now proceeding vigorously to purchase several longer maturities against offsetting sales of the September 15 maturities as rapidly as these can be effected. The account will be up and down from day to day, but I want you to understand just what is taking place, and hope you will explain it to your colleagues in the Board.

From this time on I anticipate there may be a fairly steady growth in demands upon us by the money market and we would not wish to have the money situation complicated by failure to anticipate

these maturities.

With best regards believe me,

Sincerely yours, (Signed) Benj. Strong"

"August 16, 1927.

Dear Governor Strong:

I have received this morning your private and confidential letter of August 15th concerning the market situation as it is now developing. It is very interesting. I think it was reasonable to expect it in view of the differential between the rates of New York and London.

I quite agree that you should take vigorous steps to prepare

for off-setting the September maturities.

It appears to me that we have some problem on, but I feel confident that you will be able to work it out. I would be very glad to take this matter up with the Board if there was any Board here, but there is nobody here but Mr. James. Hamlin and Platt are away as usual; Miller is in California; Cunningham is at his farm in Iowa; and the Comptroller is in and out, but not very well. So there is nobody left but the cripples to run the business.

Sincerely yours,

(Signed) D. R. Crissinger"

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"August 15, 1927.

Dear Governor Crissinger:

At the opening of business this morning the Open Market Investment Account stood at about \$501,000,000, with additional purchases made tast week, for delivery today, of \$4,000,000, which will make the total \$305,000,000. This brings us up to a total of \$40,000,000 of purchases against the \$50,000,000 recently authorized.

This morning one of our foreign correspondents requested us to sell \$10,000,000 of September 15, 1927 certificates, which we are taking for the System Account. This will complete our purchases for the present. In addition to this \$10,000,000 purchase we have been offered a block of \$20,000,000 of the September 15 certificates, and as we hold in the System account \$20,000,000 of the Treasury 3 3/8% bonds (for which we turned in Second Liberty Loan 4 1/4% bonds on June 15) which can now be sold to an advantage, it has seemed to us an opportune time to make the switch. We are, therefore, taking in the \$20,000,000 of September 15 certificates, against which we will sell the long-term 3 3/8% bonds, and have today sold \$10,000,000 of the latter at 100 22/32, for delivery tomorrow. The remaining \$10,000,000 will undoubtedly be sold within the course of the next few days.

Very truly yours,
(Signed) Benj. Strong,
Chairman, Open Market
Investment Committee."

"August 16, 1927.

Dear Governor Strong:

I have your letter of August 15th explaining the condition of your Open Market Investment Account and note that it is now up to \$305,000,000, and that you are about to complete the full authorization.

I am very glad to have your letter and will bring it to the attention of the Board.

With my kind regards, I am

Sincerely yours,

(Signed) D. R. Crissinger"

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Office Correspondence

FEDERAL RESERVE BOARD

Date	 	

То _____

Subject:___

From___

-23-

"August 16, 1927.

Dear Governor Crissinger:

Since writing you yesterday we have still another development which has a bearing upon the money market. Sterling exchange since our rate reduction has been consistently strong and yesterday we were able to liquidate <u>L 1,000,000</u> of our Lond/account at a satisfactory rate. And the arrangement with the Bank of England to continue this policy will possibly result in further sales of sterling from time to time so long as the market justifies it.

These sales of course have the effect of taking funds out of the money market in New York and consequently of impairing banking reserves. If sterling is strong enough to justify considerable sales it will possibly be necessary for us to extend our purchases of Government securities. This, of course, is one of the offsetting transactions which will be current from time to time, and it simply means that as the London portfolio decreases the New York portfolio will correspondingly increase, and vice versa. On the other hand, it may be that we can buy gold in London at satisfactory prices and hold it earmarked so as to be in position to sell it at a favorable opportunity.

Very truly yours,

(Signed) Benj. Strong"

"August 17, 1927.

Dear Governor Strong:

Your letter of August 16th in re selling of L 1,000,000 Sterling out of your London account has been received, and it is noted that these sales of Sterling from the London account will withdraw funds from the New York market and that it will be necessary probably to extend the purchases of securities in order to offset it.

I am bringing your letter to the attention of the Board.

Very truly yours,

(Signed) D. R. Crissinger, Governor."

Office Correspondence

FEDERAL RESERVE

Date	 	

Subject:___

From___

-2-4-

"August 19, 1927.

Dear Governor Crissinger:

Matters are developing from day to day in money market affairs and once more I should advise you just what is transpiring.

In the first place you will observe from the gold settlement fund figures that we have lost over \$120,000,000 of our reserves in the last few weeks to the rest of the country. While this is not unusual at the season, I have a feeling, which is shared by some of my associates here, that the movement has been accentuated by the failure of Chicago and Philadelphia to reduce their discount rates. But after all that is a matter for them to decide and we must make our arrangements accordingly.

Until the last day or two the trend of the money market disclosed an underlying strength which disturbed me somewhat, but within the last forty-eight hours it has shown evidence of ease, stock exchange rates today were reduced to 3-1/2%, there is a somewhat lessened demand for Federal Reserve funds, and signs that the commercial paper market has eased a bit as well as the rate on collateral time loans.

One of the results of this ease, of course, is to strengthen the sterling rate somewhat and we have been successful in disposing so far of about 1 3,750,000 of our sterling balances - in round figures about \$18,000,000 - This, of course, takes money out of the money market and considering that it involves no change in policy and simply a shift in portfolio from London to New York, we have felt obliged to buy a moderate amount of governments in order to offset these withdrawals.

Taking the situation as a whole, it has worked out most satisfactorily. If we find after the turn of January that our portfolio is larger than necessary we can readily liquidate a part of it. And as matters stand today I think it may be better later in the year to let the needs of the market be supplied by the member banks borrowing from us. The liquidation immediately following the first of January will enable us to judge of the extent, if at all, we should sell government securities.

I hope the whole program has worked out to your satisfaction. know it has to ours, and our directors expressed satisfaction when the subject was reviewed at yesterday's meeting.

I beg to remain

Sincerely yours, (Signed) Benj. Strong"

All of the above communications were presented at an Executive Committee meeting held on August 24th. No action was taken by the Committee except to note the contents thereof.

At the meeting of the Executive Committee held on September 2nd, the

Office Correspondence

FEDERAL RESERVE BOARD

Subject:

Date_		
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То	
From	

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Committee noted the following communication from Governor Strong dated August 25th:

"Since my letter of August 16 in reference to changes in the Open Market Investment Account, the strength in sterling has enabled us to make further sales from our London account. Such sales have reached a total of 5 7,180,000 through the close of business tonight, involving the withdrawal from this market of approximately \$35,000,000, and up to the close of business last night we had purchased for the System Account, as an offset, a total of \$17,004,500 par value of Government securities.

"Today one of our foreign correspondents requests us to sell from its holdings \$25,000,000 of Treasury certificates maturing September 15 next; of this amount we have purchased for the System Account \$15,000,000, making total purchases to offset sales of sterling \$32,000,000 and increasing the holdings in the System Account to \$347,000,000. The remaining \$10,000,000 of these September certificates we have purchased for our own investment account, to be held there temporarily for sale to the Treasury early in September.

early in September.

"With the continued strength in sterling, we will, no doubt, be able to make further substantial sales, in which event we shall continue making offsetting transactions."

Nowhere in the Board's records does it appear that formal action was taken approving specifically the purchase of securities by the Open Market Investment Committee to offset sales of sterling balances. The first sale of sterling was made during the week ending August 17th, and on that date the Open Market Investment Account stood at \$317,956,300. Since that date, the sterling balance has been practically liquidated, and the Open Market Investment Account has increased right along up to September 21st, when it stood at \$362,819,000.



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Confident

September 30, 1927.

At a meeting of the Federal Reserve Board held on May 5, 1927, Governor Strong reported verbally arrangements being made to purchase \$60,000,000 of gold from the Bank of France, to be held by the Bank of England for the New York bank's account. The following is an excerpt from the minutes of that meeting:

"At this point, Governor Strong of the Federal Reserve Bank of New York, entered the room and advised the Board that the Bank of France had contemplated and made arrangements to ship \$90,000,000 of gold to the American Exchange Irving Trust Company of New York City, that \$12,000,000 of the gold had been received by the member bank and \$18,000,000 is now in transit. He stated that the Federal Reserve Bank of New York has about completed an arrangement whereby the balance of the gold not yet shipped (\$60,000,000) would be seld to it by the Bank of France and held for the Federal Reserve Bank, properly earmarked, by the Bank of England. He also referred to a telephone conversation this morning with Deputy Governor Harrisen of the Federal Reserve Bank of New York, regarding impending arrangements for stabilization of the Polish Currency."

The Board has in its files a letter from the Secretary of the Governors' Conference, dated May 24, 1927, enclosing a copy of the minutes of the meetings of the Open Market Investment Committee held in Washington on May 9th, 11th and 12th, and a copy of the preliminary memorandum relative to Open Market policy which was submitted to the Governors' Conference in connection with the Committee's report. The Governors' Conference was in session in Washington during the period from May 9th to 12th.

The minutes of a meeting of the Open Market Investment Committee held in Washington on the morning of May 9th show that the Secretary read the preliminary draft of the memorandum referred to above and that it was the opinion of the Committee that copies of the memorandum, with Fuggested amendments, should be submitted by the Chairman of the Committee to the Federal Reserve Board for its consideration in order to familiarize the Board with the fasters which would be in the minds of the Committee later in preparing its report. The minutes of a meeting of the Open Market Committee held on the afternoon of May 9, 1927 that the Committee considered a redraft of the preliminary memorandum containing the amendments agreed to at the morning meeting, and that the Chairman of the Committee was requested to transmit seven copies of the memorandum as amended to Governor Crissinger for the members of the Board, with advice that the Committee would be glad to meet with the Board and discuss the memorandum any time suitable to its convenience. According to the minutes of said meeting, copies of the amended memorandum were submitted to Governor Crissinger at 115pm, immediately fellowing adjournment of the afternoon meeting of the Committee.

A copy of the preliminary memorandum referred to is attached hereto,

from which the following is quoted:

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Authority E.O. 10501

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"During the last part of April, the Bank of France recovered approximately \$90,000,000 of gold from the Bank of England by the repayment of its credit to the Bank of England. Of this \$90,000,000, \$12,000,000 arrived in New York last week, \$18,000,000 is still on the water, and \$60,000,000 was purchased by the Federal Reserve Bank of New York on May 6 and is now held by the Bank of England under earmark for account of the New York bank. In addition to this Bank of France gold, \$2,500,000 has recently been imported from Australia, and another \$2,500,000 more is now on the water from Australia and expected to arrive in this country this week

"A somewhat disturbing factor arose in the probability of the importation and sale to the Federal Reserve Bank of New York of the \$90,000,000 of gold, negotiations for the purchase of which had been concluded by one of the New York member banks from the Bank of France. It was learned that space had been reserved on the steamers and arrangements had been made for shipping the entire amount of gold; in fact, one shipment was about to arrive in New York, and others were being loaded. In view of this situation, after consulting with all members of the Open Market Investment Committee and with the Federal Reserve Board by telephone, it was arranged to purchase from the Bank of France all of the gold - nearly \$60,000,000 - which had not been shipped, and to seal the Bank of France a like amount of the September maturity of certificates of indentedness held in the Open Market Investment account. By this arrangement, the money market status remained unchanged, except as to the gold which had already been shipped, leaving the committee in position to determine later at its meeting whether these securities should be replaced or not. Securities were sold to offset \$9,000,000 of the \$12,000,000 already arrived, but no arrangements have been made for sales to offset the balance of the gold which will arrive from London and from Australia, amounting in all to about \$20,000,000. With the sale already made and further sales, if made to offset further gold arrivals, the securities remaining in the System's portfolio account will be a little over \$100,000,000, too small an amount to afford security against possible future developments. This will be appreciated, for example, if the \$90,000,000 now purchased had arrived at a time when we had no portfolio of government securities available. It is clear, therefore, that the committee must from now on give careful attention to meeting this gold problem, either by increasing its portfolio in anticipation of future developments, or by adopting other measures. The method of doing so should be determined with regard to whether the time has or has not arrived when the Federal Reserve System can afford to put new funds in the market, the effect of which would be to reduce the System's holdings of bills. There are various possibilities for dealing with the gold problem as a whole which have never heretofore been discussed in the Committee's report and which are now submitted simply for discussion. None of them are recommended at this time, but are intended simply as a summary of all possibilities."

Digitized for FRASER to reduce the borrowings of member banks, principally in New York, and possibly http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis -3-

The first of the several possibilities referred to in the preliminary memorandum is as follows:

"(1) The committee could replace the securities sold to the Bank of France. The immediate effect would be to reduce the amount of member bank borrowings in New York, which are now running on the average at from \$100,000,000 to \$150,000,000."

A second meeting of the Open Market Committee was held on the Afternoon of May 9, 1927, attended by six members of the Federal Reserve Board. The minutes of that meeting show that there was a long discussion by various members of the committee and the Federal Reserve Board of the preliminary memorandum: previously distributed among the members of the committee and the Federal Reserve Board, and that Gowernor Strong explained that this preliminary memorandum did not embody any recommendations but merely raised points for discussion with the Reserve Board which would enable the committee later to file a report with definite recommendations. The meeting adjourned with the understanding that the Committee would submit its final report to the Federal Reserve Board later on in the week.

A report of the Open Market Committee dated May 11, 1927, was submitted to the Board at a meeting held on May 12, 1927. In this report, the Open Market Committee made the following recommendations: of policy for the period ending August 1, 1927:

"(1) That no further sales of system securities be made in order to offset arrivals of gold from abroad now known or antici-

"(2) That it shall be the pelicy 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 'undue effect upon the money market,' the emmittee would expect to keep in mind any changes which might eccur 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 levering 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

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the amount of Federal reserve credit in the market. It expects to discuss with the Treasury Department these 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.

At the May 12th meeting of the Board, following submission of the above recommendations, Gevernor 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 organisation 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 emtemplated jointly with the Board and the Open Market Committee. Governor Strong, thairman 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 memorandum 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 Countitive for an increase in the investment women 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 fellowed 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 spinion that the policy emtemplated in the Committee's recommendations would not result in any increase in Federal Baserve 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. Upon motion, the recommendations of the Open Market Investment Committee were 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.

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The Board reconvened during the afternoon of May 12th, and during that session 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 etated that he had been advised by Governor Strong that the geld 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. The Governor stated that he had also been advised that the participation was to be made affective 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, "Geld Held Abroad", immediately preeeding the item "Due from Foreign Banks", and that the published anlysis thereof accompanying the statement contain the fellowing brief comment in regard thereto: "During the week the Federal Recerve Bank of New York purchased abroad \$59,548,000 of gold, the purchase being participated in by all Federal reserve banks. This geld 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

The only action taken by the Board at this meeting was with regard to how the gold should be reported, and to reaffirm a pregious position taken that Federal reserve banks should not regard as part of their reserves gold earmarked in fortigh countries. Up to this point, ne formal action had been taken, according to the minutes, approving of the purchase of the gold.

At a meeting of the Board held on May 13, 1927, consideration was given to the recommendations of the Open Market Investment, which had been submitted at the meeting held on the previous day, and in this connection, the entire record as it appears in the minutes of the Board is quoted below:

"At this point, the Secretary of the Treasury entered the

meeting and took the Chair.

"The Beard then preceded with further equalderation of the recommendations of the Open Market Investment Committee, submitted at the meeting yesterday and on which no action was taken at that meeting.

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"Mr. Hamlin moved that the Board approve the resommendations of the Open Market Investment Committee contained in the report of the Committee dated May 11, 1927.

"Mr. Miller stated that he would prefer to have action on the recommendations of the Committee deferred until the Board has had an opportunity to discuss the general question of spen market policy with the Federal Advisory Council at their meeting on next Friday. He stated, however, that if the Board did not believe it desirable to defer action he wished to present for the Board's consideration, as an alternative for Mr. Hamlin's motion, a memorandum prepared by him as the basis of a letter to the Open Market Investment Committee regarding its report.

"The Chairman pointed out the desirability of establishing a policy which he stated could, of course, be changed by the Board at any time if developments warranted. He stated that he believed unless there was some particular reason for not doing so the Board should emeur in the recommendations of the Open Market Investment Committee, and pointed out that if the Board did so, and following the meeting of the Federal Advisory Council, wished to change that policy there was no reason why an amendatory action should not be taken by the Board. He suggested that the Board might approve the recommendations of the Committee and in advising of such approval state to the Committee that the question of open market policy will be kept under consideration and that the Board upon review might wish to take further action.

"Mr. Platt then moved that Mr. Hamlin's motion be amended to read as follows:

"Resalved, that the Federal Reserve Board approve the report and recommendations of the Open Market Investment Committee, with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorised within the time limit mentioned."

"Mr. Hamlin accepted the amendment moved by Mr. Platt and by unanimous consent withdrew his original motion.

"Mr. Miller then read to the Board the following memorandum prepared by him and as a substitute for Mr. Platt's metion moved its adoption by the Board as the basis of a letter to the Open Market Investment Committee;

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Open Market Committee Lated May 11, 1927, for the period ending August 1:

- (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 pelicy 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.

With respect to recommendation No. 1, it does not appear to the Board that the next few months will show gold imports to the United States in any such volume as would indicate the necessity or desirability in existing circumstances of an off-setting operation by the sale of System securities. It has, therefore, nothing to suggest by way of modification of the course of action outlined by the Committee, unless there should be a marked change in the situation in which case the matter should be reconsidered. The Committee's recommendation is, therefore, approved.

With respect to recommendation No. 2, it is the opinion of the Board that the System's Special Investment Account should, somer or later, in accordance with the policy which has governed the operation of the Account in the past, be replenished by the purchase of an amount of securities that would bring up the total holdings in the Account to not less than \$200,000,000.

It is, however, the opinion of the Board that the present situation is not a favorable one for such an operation and that the resumption of purchases of securities for the Special Investment Account should be deferred until such time as it may appear that such purchases will have a desirable stimulating affect upon trade, industry or agriculture. The country is new entering a period of interseasonal trade hull with the demand for credit for commercial use slackening. The only highly active market in the country is the securities market. is accumulating evidence of speculative excesses, which in part has been reflected in recent weeks in a great growth of brokers' demand loans. It is thought not to be desirable to stimulate these by a reduction of the cost of money in the New York market such as would result from the purchase during the next two months of from \$100,000,000 to \$150,000,000 of securities for the System account.

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It is the view of the Board that the movement of business, credit, gold, money rates and other factors bearing
upon the credit and open market pelicy of the Federal
Reserve System should be carefully and constantly watched,
in order that when action is taken to replenish the Special
Investment Account it may be done with a minimum of undesirable stimulation.

For its part the Board will follow coming developments affecting open market policy with care and will keep in touch with the Committee in order that where may be a prompt exchange of views and suitable action when conditions warrant. For the present the Board does not think the situation favorable to a securities-purchase operation and, therefore, withhelds approval of the resommendation that the Committee at this time be given authority to purchase securities between now and August 1 to an amount sufficient to bring up the System's account to \$250,000,000."

After a detailed discussion, Mr. Miller's substitute motion was put by the Chair and lest, the members voting as fellows:

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

Mr. Platt's motion was then put by the Chair and carried, the members woting as follows:

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

Mr. Cumminglisher then made the following statement:

"With the sincere hope that the view expressed

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in Mr. Platt's resolution that the securities which the open Market investment committee recommends be purchased will be accumulated gradually up to August 1st next, I am voting in favor of the motion."

The Board then approved the following draft of letter to the Chairman of the Open Market Investment Committee advising of the action taken by the Board with respect to the Committee's recommendations:

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"At the meeting of the Federal Reservs Board this morning, consideration was given to the report of the Open Market Investment Committee, dated May 11, 1927, in which the Committee recommended: "(1) That no further sales of System securities be made in order to offset arrivals of gold from abread now known or anticipated" and "(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 '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."

"The Board voted to approve the report and recommendations contained therein, with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full

amount authorized within the period of time mentioned."

At this point, May 15th, the account stood at approximately \$136,000,000, having been reduced during the previous week about \$65,000,000, by reason of males of approximately \$60,000,000 of securities to the Bank of Frances and \$5,000,000 for reasons not recorded. On June 8th, the account stood at \$316,050,300.

On June 9th, Governor Strong addressed a communication to Governor

Crissinger, reading as fellows:

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"It will interest you to have a resume of the transactions in the open market which have been necessarily quite active because of the large amount of securities which we are called upon to buy.

"As you have been advised we have made purchases of a total of \$100,000,000, offsetting exactly that amount of gold earmarked for account of one of our foreign correspondents, and that part of the transaction is concluded.

"We have also concluded purchases aggregating a total of

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\$115,000,000 for delivery on or before June 15, to replace all of the maturities held in the Swstem account and for the account of foreign correspondents maturing on that date. In addition to that we have purchased in round figures \$15,000,000 for the System's open market investment account, this purchase having been made in connection with the adjustment of purchases currently being made for account of the Treasury Depresent, and se far that is all that has been done pursuant to the recommendations of the Open Market Investment Committee recently approved by the Federal Reserve Board.

"Preparations for the June 1 financing, occurring simultaneously with the heliday at the end of May, necessitated somewhat heavier borrowing here than would ordinarily be the ease, and the rates in the money market showed a tendency to stiffen somewhat, but we believe that the effect was only temporary and that the return flow of funds from the interior and of currency, coupled with the purchases which we have made, will leave rate conditions not greatly above where they were during the latter part of May.

"The present situation is that the member banks in New York City one us about \$50,000,000 and that the dealers owe us an additional \$50,000,000 under sales contract agreement. Between now and June 15 this indebtedness of the banks and market to us may be somewhat further reduced. For a few days after the 15th as usual money will be easy, as Treasury maturities are in excess of tax payments, but after three or four days large tax payments will eams out of the market. The amount of funds available to the market will be reduced from the present situation by approximately \$85,000,000 as a net result of June 15 maturities. That means that the New York banks and market will have to be borrowing from ms at least \$150,000,000, and, on top of this, will some the usual extra domand for cradit in connection with the end of the half year. This will give us a situation that we will have to think about and watch carefully. Further purchases will then be desirable."

Governor Strong's communication of June 9th was brought to the attention of the Beard at a meeting held on June 10th. No action was taken by the Board. In presenting the letter, Governor Crissinger stated that Governor Strong advised him yesterday (June 9) over the telephone that the Federal Reserve Bank of New York had purchased from the Reichsbank and earmarked abroad \$2,800,000 additional of gold, making a total of gold earmarked abroad of between \$62,000,000 and \$65,000,000. Governor Crissinger further stated that Governor Strong this morning (June 10) advised him that conditions are so shaping themselves as to probably make it necessary for the Federal Reserve System to convert this earmarked gold into earning assets through the purchase of bills abroad.

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At a meeting of the Federal Reserve Board held on June 14th, there was presented a letter dated June 11th from the Deputy Governor of the Federal Reserve Bank of New York, with reference to the purchase of \$2,600,000 of gold by the Federal Reserve bank from the Reichsbank, which was earmarhed at the Bank of England, the Daputy Governor transmitting copies of communications addressed to other Federal Reserve banks regarding the transaction and their participation therein. At this meeting, the Covernor also "reported a telephone e coversation with Governor Strong during which he was advised of the sale to the Bank of France of approximately \$60,000,000 of gold which the Federal Reserve Banks have held earmarked at the Bank of The Governor reported that the sale was made at a price approximately \$85,000 above that paid for the gold which is to be taken down by the Bank of France at the rate of \$15,000,000 a week, with an option to the Bank of France to take \$30,000,000 the first week. The Pederal Reserve Banks in payment will receive a deposit eredit at the Bank of England, at interest, which is to be invested in Sterling bills as and when such bills are available. The matter, he stated, was submitted to the directors of the Federal Reserve Bank of New York and unanimously approved by them and will be made the subject of a formal communication to the Board in the course of the next day or co." Following the Gevernor's report, a general discussion ensued as to the position of the United States in the world gold market and the policy involved in the purchase of foreign hills reported by the Governor.

At the meeting of the Board held on June 15th, the Governor presented a letter dated June 14th from the Deputy Governor of the Federal Reserve Bank of New York, transmitting for the information of the Board copies of telegram and letter addressed to the Governors of all other Federal reserve banks, concerning the sale to the Bank of France of approximately \$60,000,000 of gold held under earmark in the Bank of England for account of the Federal reserve banks, as reported informally by the Governor at the meeting of the Board on June 14th. Thereupon ensued a discussion as to the authority of the Federal Reserve Board in connection with transactions of this kind entered into under the provisions of Scotion 14 of the Federal Reserve Act. The relations between the Federal Reserve Bank of New York and the Bank of England were also discussed, and by direction of the Board the Secretary opened and read to the Board the formal agreement between the New York bank and the Bank of England which has been carried in the files under seal. He also read the action of the Board at its meeting on December 19, 1916 in voting "That the Federal Reserve Bank of New York be authorised to appoint as its serrespondent and agent The Bank of England of London, England, and that it be further authorized to open and maintain banking accounts with and for said correspondent and agent for the purpose of purchasing, selling and collecting bills of exchange, in accordance with the provisions of Section 14 and other provisions of the Federal Reserve Act, as amended; and for such other purposes as may be permitted under said Federal Reserve Act, as amended."

Authority E.O. 10501

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Following the discussion, it was voted to request the Law Committee to report to the Board with respect to what limitations and restrictions the Board is authorized to impose on operations conducted by the Federal Reserve banks under Section 14 and as to the Board's general authority in such transactions. In this connection, Mr. James requested that the Committee include in its report an opinion as to the authority of the Federal Reserve Banks in connection with the purchase of foreign bills, to impose a commission such as was imposed on the National Bank of Belgium and the Bank of Poland in connection with the agreements entered into with those institutions by the Federal Reserve banks to purchase prime bills bearing their guarantee.

On June 15th, the account stood at \$244,256,300, having been reduced during the week from about \$316,050,300, the point at which it stood on June 8th. Operations over this period are referred to in the following letter, dated June 16th, addressed by Governor Strong to Governor Crissinger, and presented at a meeting of the Board held on June 17th:

"Referring to my letter of June 9 in regard to transactions in the open market there has been some change in the position due to the unexpectedly large overdraft of the Treasury in connection with June 15 transactions which leads me to write you further as to the position of the money market and as to prospective pur-

chases by the Open Market Investment Committee.

"We had calculated, with such information as we usually have, that the amount of the overdraft would be, in round figures, \$180,000,000. It turned out to be \$240,000,000, the disbursements for the Treasury's account being larger than the preliminary estimates. Against this large disbursement pending tax collections we distributed \$104,000,000 of participations to various member banks, leaving the net amount of funds put into the market as a result of Freasury transactions \$136,000,000. This means, of course, that there must be withdrawn from the money market between now and early next week not only the \$136,000,000 which will repay the government's temporary certificate of indebtedness (net) but also possibly \$30,000,000 more to restore the government's working balance in the Reserve banks. In other words, on top of borrowings from us aggregating between \$25,000,000 and \$50,000,000 at the present time, the market will lose, say \$165,000,000, and we anticipate that the berrowing in all forms at this bank next week for a time may exceed \$200,000,000, and this, of course, will be in the week prior to the double holiday when we have to meet quite a heavy demand for currency, a demand on the part of those who practice window dressing at semi-annual periods, as well as a demand arising from the very heavy July 1 interest and dividend disbursements.

"One hundred million dollars of the securities now held in

Authority E.O. 10501

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the open market account were purchased to effset the loss of that amount of gold earmarked for foreign account as described in my letter of June 9, so we have only realized about \$15,000,000 of the increase in the account which was contemplated when the committee and the Board discussed the matter at the May meeting. So that, to realize fully the aims we hadin mind at that time, we might still purchase an additional \$100,000,000 between new and August 1.

"Having in mind, however, the size of the Stock Exchange Loan account and the expressions of views contained in your letter of May 13, our directors to-day, after a full discussion, took the view which is held by the officers of the bank that it might be well to defer further purchases until possibly after the first of July, even though in the meantime money rates might advance somewhat

in the general money market.

"This was the recommendation of the officers of the bank after full discussion of the situation, and we thought we should bring it immediately to the attention of the Board. We are, however, prepared to act promptly in making further purchases in case money market conditions indicate the need for it.

"I hope you will be good enough to bring this letter to the attention of the Board as it somewhat elaborates the report con-

tained in my letter of June 9."

At the meeting of the Board on June 17th, following presentation of the last quoted letter from Governor Strong, discussion ensued as to the action of the Board at its meeting on May 13 in approving a recommendation of the Open Market Investment Committee "That it shall be the policy of the Committee between now and August 1st next, gradually to acquire, if possible to do so without united 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. Attention was called to the fact that the System account now (June 17) amounts to approximately \$235,000,000 and that regardless of the manner in which the account was built up the authority granted by the Board has been exercised and the aims which the Board had in mind have been realized. After discussion, it was understood that there would be prepared and submitted to the Board at its next meeting draft of a letter to Governor Strong along the lines of the discussion at this meeting.

At a mmeeting of the Board held on June 20th, Governor Crissinger, in accordance with the action of the Board at its meeting on June 17th, submitted draft of letter prepared by Mr. Miller replying to Governor

Strong's letter of June 16th, reading as follows:

"Receipt is acknowledged of your letter of June 16th, supplementing your letter to me of June 9th, and commenting upon the

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changed position of the money market due to the unexpectedly large overdraft of the Treasury in connection with June 15th transactions. I note your views regarding the possibility of further purchases by the Open Market Investment Committee and note the opinion of the officers of your Bank concurred in by the members of your Board of Directors that it might be well to defer any further purchases until after the first of July, even though in the meantime money rates might have advanced somewhat in the general money market.

"Your letter was brought to the attention of the Board at its meeting this morning, and there was a discussion of several of the matters mentioned. Particular reference was made to your statement that the Open Market Investment Committee has realized only about \$15,000,000 of the increase in the System's account which was contemplated when the Committee and the Board discussed the matter at the time of the Governors' Conference, and the further statement that 'to realize fully the aims we had in mind at that time, we might still purchase an additional \$100,000,000 between now and August 1st.'

"Such purchase of an additional \$100,000,000 would result in an enlargement of the System's investment account beyond the limit approved by the Board at its May 13th meeting. Action of the Board at that time was to approve the Committee's recommendation to purchase sufficient additional short term government obligations to bring the total of the investment account up to \$250,000,000.

"The System's special investment account amounts at this time to approximately \$235,000,000, leaving a leeway for future purchases of \$15,000,000 to reach the limit previously approved.

"In view of the contingencies pointed out in your letter and such other information as the Board has regarding money market conditions, it may later on be advisable to make additional purchases of securities on System account. The enlargement of the System's account in the near future, however, raises a new questions, and the matter should, therefore, be submitted to the Board in the usual course."

In presenting the draft of letter just quoted, the Governor stated that "he understood from a telephone conversation with Governor Strong that a further letter on this subject is being forwarded to the Board, and action on the letter presented by Mr. Willer was therefore deferred.

action on the letter prepared by Mr. Willer was therefore deferred.

At a meeting of the Board held on June 21st, Governor Crissinger presented the following letter from Governor Strong, dated June 20th, which Governor Crissinger had stated at the meeting on June 20th was being forwarded to the Board:

"In our telephone conversation on Friday you mentioned that some members of the Board felt that the purchases already con-

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cluded by the Open Market Investment Committee had completed the amount which was recommended by the committee to the Federal Reserve Board in its last report, and that the position should now be reviewed again to determine whether any further purchases were justified.

"We have proceeded in making these purchases in accordance with my understanding of the policy agreed upon by the Beard with the Open Market Investment Committee in the past, that large movements of gold such as we have recently experienced ars, as a matter of source, to be offset by purchases or sales of Open Market Investment Committee holdings. I think you will find this general view of the committee's policy referred to in previous reports of the committee, three of which I have before me, that is, November 8, 1926, September 10, 1926, and the last meeting held in May. The records of the earlier meetings of the committee are, as I recall, even more specific on this point, but they are not before me as I dictate this letter.

To review the present situation, when the Bank of France eccured the return of \$90,000,000 of gold in London we negotiated for its purchase, as you know, on very short notice in order to avoid its getting into the country when, having once crossed the exchange barrier, it would form a permanent part of our gold reserves. \$50,000,000 we were unable to arrest in London, but we partly offset the effect of its addition to bank reserves by sales, as I recall, of about \$15,000,000 of the System's securities. The purchase of \$60,000,000 in London was effected by our selling a like amount of the System's securities to the Bank of France and se avoiding the expansion of bank reserves which would have resulted from our paying for the gold without reducing our investment account. While the effect of this was to give the Bank of France dellar balances for \$90,000,000 in New York, about \$75,000,000 or thereabouts of this gold was actually offset by males of securities.

*How exactly the reverse operation has taken place as to \$100,000,000, because the Bank of France has withdrawn \$100,000,000 of their deposits with New York banks, transferred them to us, and purchased that amount of gold, thus effecting a reduction of bank reserves in this city of \$100,000,000. As explained to you by telephone, this made it necessary to offset the loss of reserves by purchases of accurities as rapidly as they could be made. Had we failed to do so we would have had a sharp advance in interest rates at m time when it would have caused inconvenience to the Treasury financing then under way and would have increased the likihood of even higher rates which we also expected after the June financing was concluded.

"As in provious similar cases we did not feel that these purchases formed a part of the \$115,000,000 authorized by the Board fellowing the submission of the committee's report of May 9. In

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fact we felt that under that emthority only \$15,000,000 of purchases had been effected and that the general scheme of the report to continue purchases up to \$250,000,000 before August 1, if money market conditions made that possible, clearly contemplates that regard for money market conditions and for the volume of berrowing in New York would be the guiding principle. Here this not the case the effect of this loss of \$100,000,000 of gold would be to entirely nullify the action of the Open Market Investment Committee and the Federal Reserve Board.

"As explained by telephone and in my last two letters on this subject, we are anticipating heavy borrowing this week, although the amount cannot accurately be forecast. It will furnish the opportunity to enlarge the committee's holdings of securities which the committee believes, and which we felt the Board believed, was a desirable thing to accomplish if it could be done without creating an undue case of money, but the continued enlargement of the security loan account seemed to justify our delaying these purchases for a short time so as to see what effect a brief period of somewhat higher rates would have.

a considerable epeculation in stocks, although far less active and menacing in its proportions than that which had developed in either Berlin or Paris. Just as is stated in the committee's report and in my previous letters this situation will require careful scruting from day to day until the true position of the money market disclosed itself. But I am sure the Board has in mind that if a period of definitely higher rates now develops and no purchasee are made practically all the bills in the market will come to the Federal Reserve Bank which might make it necessary for us to advance our bill buying rate, and that, in turn, make it necessary to advance our discount rate. Such action at this time we do not believe is justified, and our directors feel would be distinctly harmful.

"So, summarizing the position as it appears to be te-day, I should say that we are quite willing to watch the effect of some-what higher rates for a short period, but we believe it would be hazardous at this time to allow a general revision of the level of interest rates to coour, for the reasons -

- (1) That it might force an increase in our bill rate and ultimately our discount rate,
- (2) That such an increase would be detrimental to the business of the country,
- (3) That it would have a tendency to depress the value of sterling and ultimately the octimental exchanges, and possibly embarrass us by starting another gold import movement, and

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(4) That with the heavy refunding operations now under way and in prospect for the Treasury we believe that any general advance in the level of interest rates, unless necessitated by other impelling reasons, might have a detrimental effect upon the Treasury's plans which would be quite unnecessary.

"I have endeavored, by telephone and letter, to keep you and the members of the Board fully informed of these developments from day to day in the hope that what we are doing was fully understood and would meet with the Board's entire approval. If that is not the case may I ask you to let me know at once, as the situation is certainly one of sufficient importance to make it necessary that there should be no misunderstanding of the Board's action and the committee's policy."

Following the reading of the above letter, a detailed discussion ensued during which Mr. Miller read to the Board the proposed letter to Governor Strong prepared by him an which action was deferred at the meeting on June 20th. Mr. Miller also submitted to the Board certain suggestions for changes in the proposed letter in light of information contained in Governore Strong's communication of June 20th. During the discussion which ensued, Governor Crissinger was called from the meeting and upon his return stated the call was from Governor Strong who suggested that if members of the Board desired more detailed information regarding present conditions than is contained in his letters, he would be glad to come to Washington tomorrow (June 22nd) for an interview. At the request of the members of the Board, Governor Grissinger expressed to Governor Strong the desire of the members that he come to Washington. Action by the Board on Governor Strong's letter of June 20th was thereupon deferred.

Accordingly, Governor Strong came to Washington and attended a meeting of the Board held on June 22md, at which all members were present, exampt Mesers. Platt and McIntosh. The minutes of the meeting held on June 22md are as follows:

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"Governor Crissinger stated that the meeting had been called for the purpose of discussing with Governor Strong in further detail the matters referred to in his letters to the Board of June 5th, 16th and 20th. The Board, with Governor Strong, then made an extended review of present and prespective conditions. Governor Strong reported upon the money markets, at home and abroad, and on the gold and exchange situation. During the discussion, it was brought out that if money rates should firm or rise it would be desirable to give relief to the situation through purchase of securities in the open market. The opinion was expressed by some members of the Board that authority to the Open Market Investment Committee to make such purchases up to \$100,000,000 already exists

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under the action taken by the Board on May 13th, as the \$100,000,000 of securities purchased since that time to offset gold exported to the Bank of France should not be someidered as having been purchased under the Board's authority referred to. This opinion was not some curred in by all members of the Board.

Following the discussion, Mr. Hamlin submitted and moved adoption of the following:

After hearing a report upon the money markets, at home and abroad, and of the gold and exchange situation, the Board authorize the Governor of the Board to advise the Open Market Investment Committee that it does not consider the \$180,000,000 of securities purchased by the Committee since May 15, 1927 as forming part of the authority granted to the Committee by the Board on that date.

Mr. Hamlin's motion being put by the Chair was carried, the members voting as fellows:

The Chairman, "sys"
Gevernor Crissinger, "aye"
Mr. Hamlin, "sys"
Mr. James, "sys"
Mr. Miller, "no"
Mr. Cunningham, "ne"

In explanation of his negative vote, Mr. Hiller stated that his view was already, in part, set out in the drafts of letters he had submitted for the consideration of the Beard as the basis of a reply to Governor Strong's letters of June 9th, 16th and 20th.

He added, in further explanation, that open market purchases and sales of securities for System account were becoming the most important operating instrumentality of the Federal Reserve System for influencing the credit situation and he thought it very important, therefore, that the action of the Open Market Investment Committee should never rest upon inferential or implied authority, but that every considerable increase or dimunition of the System account should be considered as a separate matter by the Board, and made the subject of positive action.

With regard to the prospective credit situation, Mr. Miller said that he thought it not imprebable that the later

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months of the year would show a tedency toward hardening of money rates. Should such prove to be the case he thought it would probably be advisable action for the Federal Reserve System, through open market purchases, to ease the credit situation; but he added that the true position of the memey market has not yet disclosed itself and appropriate pelicy cannot be determined at this time.

For these reasons, he stated, he voted "ne" on Mr. Hamlin's resolution."

During the period from June 22nd to the date of the next mesting of the Open Market Investment Committee held in Washington on July 27th, purchases were made for the account which increased the total from \$250,448,500 to \$265,998,300.

A meeting of the Board and the members of the Open Market Investment Committee was held in Washington on July 27th and the minutes of said (meeting read as follows)

"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 fell in semmedity 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 commedities to Europe, there was a continued drain on European central bank gold reserves, which made it more than likely that 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 contral 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 desir-

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able 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 number 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 penalising business with high rates.

"It was also suggested that in order to make a three and onehalf 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 Lordon was not today sufficient to enable London, and therefore the rest of Europa, 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."

The minutes above quoted were written during recess, and upon reconvening, were approved by the meeting, following which it was moved and carried 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.

At this point, July 27th, when the account stood at \$285,998,300, the Committee had authority to increase the holdings in the account up to \$315,900,000.

During the period from August 15th to 19th, the following letters were exchanged between Governor Crissinger and Governor Strong:

"August 15, 1927.

My dear Governor Crissinger:

I am seming you a letter today as Chairman of the Open Market Investment Committee which I think explains itself, but wish to add something to it personnally so that you may understand the atmosphere.

There has been a considerable movement of funds away from New York. It resulted as you have observed in the money market remain-

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ing somewhat firmer than we had enticipated and it not only resulted in our purchasing somewhat more for open market account than I had expected, but in our doing so much more rapidly than had been anticipated. The transactions reported in my separate letter are simply routine and arcse in commection with adjustments made in the various accounts as explained.

We are about facing the need for a very considerable preparation for the September 15 financing. We hold for account of the Open Market Investment Committee and for account of our foreign correspondents comething over \$200,000,000 of the certificates maturing September 15. If repayment of these were received from the Treasury without any offsetting purchases it would of course result in a very severe stiffening of money rates and a large shortage of reserves in New York, much the largest in fact that we have experienced in some years. In view of this fact we are now preceding vigorously to purchase several longer maturities against offsetting sales of the September 15 maturities as rapidly as these can be effected. The account will be up and down from day to day, but I want you to understand just what is taking place, and hope you will explain it to your colleagues in the Beard.

From this time on I anticipate there may be a fairly steady growth in demands upon us by the money market and we would not wish to have the meney situation complicated by failure to anticipate these maturities.

With best regards believe me,

Sincerely yours, (Signed) Benj. Strong"

"August 16, 1927.

Dear Governor Strong:

I have received this morning your private and confidential letter of August 15th concerning the market situation as it is now developing. It is very interesting. I think it was reasonable to expect it in view of the differential between the rates of New York and London.

I quite agree that you should take vigorous steps to prepare

for eff-setting the September maturities.

It appears to me that we have some problem on, but I feel confident that you will be able to work it out. I would be very glad to take this matter up with the Board if there was any Board here, but there is nobody here but Mr. James. Hamlin and Platt are away as usual; Miller is in California; Cunningham is at his farm in Iowa; and the Comptreller is in and out, but not very well. So there is nobody left but the cripples to run the business.

Sincerely youre,

(Signed) D. R. Crissinger"

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"August 15, 1927.

Dear Governor Crissinger:

At the opening of business this morning the Open Market Investment Account stood at about \$5@1,000,000, with additional purchases made last week, for delivery today, of \$4,000,000, which will make the total \$305,000,000. This brings us up to a total of \$40,000,000 of jurchases against the \$50,000,000 recently authorised.

This merning one of our fereign correspondents requested us to sell \$10,000,000 of September 15, 1927 certificates, which we are taking for the System Assount. This will complete our purchases for the present. In addition to this \$10,000,000 purchase we have been effered a block of \$20,000,000 of the September 15 certificates, and as we held in the System account \$20,000,000 of the Treasury 3 3/8% bonds (for which we turned in Second Liberty Lean 4 1/4% bonds on June 15) which can now be sold to an advantage, it has seemed to us an opportune time to make the switch. We are, therefore, taking in the \$20,000,000 of September 15 certificates, against which we will sell the long-term 3 3/8% bonds, and have today sold \$10,000,000 of the latter at 100 22/32, for delivery temorrow. The remaining \$10,000,000 will undoubtedly be sold within the source of the next few days.

Very truly yours, (Signed) Benj. Strong, Chairman, Open Market Investment Committee."

"August 16, 1927.

Dear Governor Strong:

I have your letter of August 15th explaining the condition of your Open Market Investment Account and note that it is now up to \$505,000,000, and that you are about to complete the full authorization.

I am very glad to have your letter and will bring it to the attention of the Board.

With my kind regards, I am

Simperely yours,

(Signed) D. R. Crissinger"

"August 16, 1927.

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"August 16, 1927.

Dear Governor Crissinger:

Since writing you yesterday we have still another development which has a bearing upon the money market. Sterling exchange since our rate reduction has been consistently etrong and yesterday we were able to liquidate & 1,000,000 of our Lond/Rosount at a satisfactory rate. And the arrangement with the Bank of England to continue this policy will pessibly result in further sales of sterling from time to time so long as the market justifies it.

These sales of course have the effect of taking funds out of the money market in New York and consequently of impairing banking reserves. If sterling is strong enough to justify considerable sales it will possibly be necessary for us to extend our purchases of Government securities. This, of course, is one of the offsetting transactions which will be current from time to time, and it simply means that as the London pertfolio decreases the New York pertfelic will correspondingly increase, and vice versa. On the other hand, it may be that we can buy gold in London et satisfactory prices and hold it carmarked so as to be in position to sell it at a favorable epportunity.

Very truly yours,

(Signed) Benj. Strong"

"August 17, 1927.

Dear Governor Strong:

Your letter of August 16th in re selling of L 1,000,000 Sterling out of your London account has been received, and it is noted that these sales of Sterling from the London account will withdraw funds from the New York market and that it will be necessary probably to extend the purchases of securities in order to offset it.

I am bringing your letter to the attention of the Board,

Very truly yours.

(Signed) D. R. Criseinger, Governor."

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"August 19, 1927.

Dear Governor Grissinger:

Matters are developing from day to day in money market affairs and once more I should advise you just what is transpirings

In the first place you will observe from the gold settlement fund figures that we have lost over \$120,000,000 of our reservee in the last few weeks to the rest of the country. While this is not unusual at the season, I have a feeling, which is shared by some of my associates here, that the movement has been ascentuated by the failure of Chicago and Philadelphia to reduce their discount rates. But after all that is a matter for them to decide and we must make our arrangements accordingly.

until the last day or two the trond of the money market disclosed an underlying etrongil which disturbed me somewhat, but within the last forty-eight hours it has shown evidence of ease, stock exchange rates today were reduced to 3-1/2%, there is a somewhat lessened demand for Federal Reserve funds, and signs that the commercial paper market has eased a bit as well as the rate on collateral time loans.

One of the results of this case, of course, is to strengthen the sterling rate semswhat and we have been successful in disposing so far of about & 3,750,000 of our sterling balances - in round figures about \$18,000,000 - This, of course, takes money out of the money market and considering that it involves no change in policy and simply a shift in partfolio from London to New York, we have felt obliged to buy a moderate amount of governments in order to offset these withdrawals.

Taking the situation as a whole, it has worked out most satisfactorily. If we find after the turn of Jennary that our pertfelio is
larger than necessary we can readily liquidate a part of it. And as
matters stand today I think it may be better later in the year to let
the needs of the market be supplied by the member banks borrowing from
us. The liquidation immediately fellowing the first of January will
enable us to judge of the extent, if at all, we should seal government
securities.

I hope the whole program has worked out to your satisfaction. I know it has to ours, and our directors expressed satisfaction when the subject was reviewed at yesterday's meeting.

I bet to remain

Sincerely yours, (Signed) Benj. Strong"

All of the above communications were presented at an Executive Committee meeting held on August 23th. He action was taken by the Committee except to acte the contents thereof.

At the meeting of the Executive Committee held on September 2nd, the

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Committee noted the following communication from Governor Strong dated August 25th:

"Since my letter of August 16 in reference to changes in the Open Market Investment Account, the strength in sterling has enabled us to make further sales from our London account. Such sales have reached a total of 5 7,180,000 through the close of business tonight, involving the withdrawal from this market of approximately \$55,000,000, and up to the close of business last night we had purchased for the System Account, as an offset, a total of \$17,004,500 per value of Government securities.

"Today one of our foreign correspondents requests us to sell from its holdings \$25,000,000 of Treasury certificates maturing September 15 next; of this amount we have purchased for the System Account \$15,000,000, making total purchases to offset sales of sterling \$32,000,000 and increasing the holdings in the System Account to \$347,000,000. The remaining \$10,000,000 of these September certificates we have purchased for our own investment account, to be held there temporarily for sale to the Treasury early in September.

early in September.
"With the continued strength in sterling, we will, no doubt, be able to make further substantial sales, in which event we shall

continue making effecting transactions.

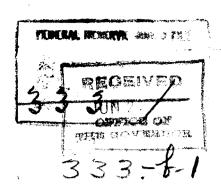
Hewhere in the Beard's records does it appear that formal action was taken approving specifically the purchase of securities by the Open Market Investment Committee to offset sales of sterling balances. The first sale of sterling was made during the week ending August 17th, and on that date the Open Market Investment Account steed at \$317,956,500. Since that date, the sterling balance has been practically liquidated, and the Open Market Investment Account has increased right along up to September 21st, when it stood at \$562,819,000.

Digitized for FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis

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FEDERAL RESERVE BANK

OF NEW YORK



June 24, 1927.

Dear Governor Crissinger:

I beg to acknowledge and thank you for your letter of June 23 advising of the action of the Federal Reserve

Board at its meeting on Wednesday last in regard to the operations of the Open Market Investment Committee.

I am very sure that this meets the situation very fully and that the result will be satisfactory to the Federal Reserve Board.

Very truly yours,

Benj. Strong Governor

Hon. D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. J.

BS/RAH

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333/

June 23, 1927.

Dear Governor Strong:

In view of what you had to say in your letters of June 9th, 16th and 20th, and during the discussion of the subject thereof which took place at the meeting of the Beard yesterday, the following motion was adopted by the Beard:

"After hearing a report upon the money markets, at home and abroad, and of the gold and exchange situation, the Board authorise the Governor of the Board to advise the Open Market Investment Committee that it does not consider the \$100,000,000 of securities purchased by the Committee since May 13, 1927, as forming part of the authority granted to the Committee by the Board on that date."

Very truly yours,

(Signed) D. R. Crissinger!

D. R. Crissinger, Governor.

Mr. Benj. Strong, Chairman, Open Market Investment Committee, c/o Federal Reserve Bank, New York, N.Y.

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see aus 6/24/27

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June 23, 1927

After hearing a report upon the money markets, at home and abroad, and of the gold and exchange situation, the Board authorized the Governor of the Board to advise the Open Market Investment Committee that it does not consider the \$100,000,000 of securities purchased by the Committee since May 13, 1927, as forming part of the authority granted to the Committee by the Board on that date.

Basis of motion by Mr. Hamlin At Board Meeting June 23, 1927

Often heaving a report upon the money mainets, at home and abroad, and Of the goed and Exchange Situation To Boord authorged The Gover to addra's the o. In. Com. there is does Considu The 100 to the pouch, as forming part of the auto,

> Hewlin Robbilion "o" trose of ele "i" er <u>r</u>

333,-f-1

July 13, 1927.

Statement by E. H. Cunningham relative to credit policies of the Federal Reserve Board.



Realizing that the question of a credit policy by the Federal Reserve Banks may come up for discussion and consideration during my absence, I desire in this memorandum to present my views relative to such policies so far as can be discerned at this time:

First. In the absence of any material change in existing credit conditions between this date and August 15th, 1927, I would favor a reduction in the discount rate of the Federal Reserve Banks on or about August 15, 1927. I believe such action would have a very stimulating effect on the marketing of crops and on general business activities during the fall season, without giving undue encouragement or added impetus to stock market activities.

Second. I do not favor additional Open Market purchases by the Open Market Committee unless or until it has been fully demonstrated that the reduction in the discount rate has not created the ease in the credit situation that was expected.

Submitted at Board Meeting July 13, 1927

July 13th, 1927

Statement by E. H. Cunningham relative to credit policies of the Federal Reserve Board.

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Submitted

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Federal Reserve Bank of St. Louis

333.8-1

July 27, 1927

Dear Governor Strong:



This is to advise you formally of the action of the Federal Reserve Board today, following its meeting with the Open Market Investment Committee, in voting that the authority of the Committee be extended for the purchase, as and when conditions warrant, of not to exceed an additional \$50,000,000 of investments.

Very truly yours,

D. R. Crissinger, Governor

Mr. Benj. Strong, Governor, Federal Reserve Bank, New York, H. Y.

see ans 7/28/27

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COLLECT

CHATEAU LAKE LOUISE ALTA JULY 26 1927

Telegraph Office

HON D R CRISSINGER

FEDERAL RESERVE BOARD WASHN YOUR TELEGRAM RECEIVED ASSUMING PURPOSE OF MEETING TO THE OPEN MARKET

OR RATE ACTION IMPRESSIONS AND INFORMATION GAINED SINCE LEAVING WASHINGTON AND SUBSEQUENT REFLECTION HAVE CONFIRMED ME IN OPINION PREVIOUSLY STATED

BEFORE ACTING GREETING TO ALL

A C MILLER

935AM JULY 27

WITH INDICATIONS OF FIRMING COMMODITY PRICES AND OF ACTIVE TRADE FOLLOW-ING AUGUMENTED RETURNS FROM CROPS THIS AUTUMN CHEAPENED MONEY MIGHT GIVE UN-HEALTHY STIMULUS, POLICY SHOULD THEREFORE BE TO AWAIT FURTHER DEVELOPMENTS

STOP CONVINCED SITUATION NOT YET SUFFICIENTLY CLARIFIED FOR WISE ACTION

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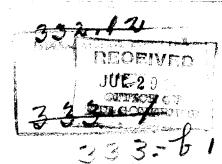
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FEDERAL RESERVE BANK

OF NEW YORK



July 28, 1927.

My dear Governor Crissinger:

This is to acknowledge and thank you for your favor

of July 27 advising of the action of the Federal Reserve

Board in extending authority to the Open Market Investment

Committee to make further investments not to exceed an addition
of \$50,000,000, as and when conditions warrant.

Very truly yours,

Benj. Strong Governor

Hon. D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

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FEDERAL RESERVE BANK OF NEW YORK

333,-8-1

(Following letter sent to Governors Harding Boston
Fancher Cleveland
McDougal Chicago)
Norris Philadelphia

CONFIDENTIAL

September 20, 1927.

Dear Governor :

The accompanying letter which is being sent to the Governors of all Reserve banks explains itself. What with the transactions for account of the Treasury, for our foreign correspondents and for the Open Market Committee account, Mr. Case has been submerged with a mass of transactions, the net result of which could hardly be reported until now. They were forecast in our letter of August 26, and the details, of course, appear in the regular weekly reports.

There are two questions about which we must give consideration at an early date. One is in regard to further purchases to offset the effect of exports of gold. We have been making these regularly to offset the withdrawal of funds from the market resulting from sales of sterling balances, but have not completed purchases to offset gold exports such as those under way to Argentina. That movement may run up to between \$20,000,000 and \$25,000,000. Our own view is that we should buy government securities for an equivalent amount as at this season of the year when there is a pretty heavy draft on New York reserves, the influence of the loss of that amount will be quite marked. We would appreciate an expression of your views.

The second question is generally as to the outlook for the fall and whether it indicates the need for further open market purchases beyond those above referred to. The Federal Reserve System from some date in August, which varies according to conditions, to the first of the following January each year, is called upon to supply an expansion of bank reserves aggregating around \$400,000,000 as shown by past experience. Roughly, nearly half of that has already been taken. We anticipate there may be some little slackening of this demand after the first of October, but for only a short period, and thereafter the holiday demand will arise and we must be prepared to meet it. Our decision of course relates to the discount rate. Having reduced rates to 3 1/2 per cent., it seems to us that it would be rather unfortunate to have too much of this demand met by discounting at the Federal Reserve Bank of New York, where most of it occurs, and we would prefer to moderate its influence upon open market rates by buying a round amount of governments with the understanding of course that immediately after the first of January, or even anticipating the large return of currency which then occurs, we should begin to liquidate a part of the Open Market account. If the entire requirements of the season were met by borrowing, it would automatically liquidate as it did last year and the year before, but if we furnish the entire amount by buying securities, we must of course be prepared to sell them promptly, otherwise money would be unduly cheap and we shall not experience the seasonal liquidation which is wholesome and to be promoted.

In view of the possibility of its being misunderstood during the pendency of all of this discussion of rate changes in Washington, I have hesitated to suggest a meeting of the Open Market Committee there and believe it was wise to defer it. If, however, the committee will be willing to meet in the near future, I

with letter of 9-28-27 from Strong

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think it is important that they should do so, and if circumstances make it unwise to meet in Washington, I shall take the liberty of asking Mr. Platt to arrange for some of the members of the Board to meet with us in New York. Won't you please write me very frankly just how this impresses you, and believe me,

Very truly yours,

(Signed) Benj. Strong Chairman, Open Market Investment Committee.

(W

(COPY)

FE. .AL RESERVE BANK OF NEW YORL

(Following letter sent to Governors Wellborn Atlanta

Biggs St. Louis Young Minneapolis Bailey Kansas City

Talley Dallas

Calkins San Francisco

Seay Richmond

CONFIDENTIAL

September 20, 1927.

Dear Governor Seay:

Since I wrote you last on August 26, the principal change in the amount of Government securities held in the System Open Market Investment Account has been due to the continued purchase of securities to offset sales of sterling which would other wise have had the effect of tightening the money market and possibly jeopardizing the object of recent System rate action. Because of the strength in sterling, it has been possible to make somewhat larger sales than had been anticipated with corresponding reduction in our sterling balance. Such sales now amount to \$47,000,000, consequently our purchases for the Open Market Investment Account now total \$47,000,000, increasing the account to \$362,000,000 at the present time.

In addition to this change in the total, there have been a number of changes in the composition of the account, as we advised you would be necessary. These changes consisted largely of the replacement of the September 15 maturities with other issues and the exchange of our Second Liberty Loan bonds for the new issue of 3 1/2 per cent. notes.

The weekly reports will show the details of transactions made in replacement of the September 15 maturities in the Open Market Account. Besides these we have purchased in the market approximately \$80,000,000 of Government securities to replace the September 15 maturities held for foreign accounts. With all of these transactions our turnover of Government issues around the 15th of the month was about \$320,000,000.

As you will have noted, the tax period passed without any serious disturbance to the market. The Treasury overdraft here was \$200,000,000, out of which we sold temporary participations of \$50,000,000 to member banks to take up the temporary over-supply of funds. The overdraft has now been retired, which has caused the banks to enter this week deficient in reserves. With the Treasury balance in the reserve banks piling up, as income taxes continue to be received, there may be an appearance of somewhat tighter money for the balance of this month and possibly early next, but we are hoping that it will be only temporary.

Since September 1 there have been losses to the money market due to net gold exports, largely due to shipments of \$13,500,000. (and more in prospect) to Argentina, against which no purchases of Government securities have as yet been made. Further purchases to offset this gold loss will be made in due course, after consulting the Committee, if they agree with our own view, that we should endeavor to offset any undue influence upon the money market due to considerable gold movements.

I am writing you again at this time in order to keep you fully advised. It is sometimes difficult to do this as frequently as we would like when in the midst of so active a period as the present. You no doubt will be interested, however, to learn that the various operations about which I wrote you previously, have gone through satisfactorily, all of which I trust meets with your approval.

Very truly yours, (Signed) Benj. Strong.

Digitized for FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis FEDERAL RESERVE BANK

333.4-1

OF NEW YORK

September 28, 1927.

Dear Mr. Platt:

Referring to our recent telephone conversation about a possible meeting of the Open Market Committee, I recently wrote the members of the committee, as per enclosed copy of my letter, and I now have replies, the substance of which are as follows: 9-20-27

All the members of the committee agree as to the wisdom of making purchases to offset shipments of gold to Argentina and, of course, they have already expressed a similar view as to making purchases of securities against sales of sterling. We should like to liquidate the balance of the sterling account very shortly, and this involves the purchase of \$10,000,000 or \$12,000,000 additional, so that these two accounts together at the present moment will involve the addition of about \$25,000,000 to our Open Market Committee holdings, bringing it close to \$400,000,000. You have in mind, of course, that the additions to the account so far made roughly comprise —

\$100,000,000 to offset the loss of gold to the Bank of France
47,000,000 to offset sales of sterling
30,000,000 under the authorization arranged at the meeting last May
50,000,000 under the authorization arranged at the meeting of July 27

a total of \$227,000,000, which with the committee's original holdings in round figures accounts for the present total.

As to the suggestion of making additional purchases to meet the seasonal demand for funds, the replies are as follows:

McDougal:

Believes as the account is now \$360,000,000, addition should only be made if demonstrated to be clearly desirable and, therefore, a meeting at a convenient date is important. Expresses some apprehension about status of Stock Exchange speculation.

Harding:

Believes we should increase our purchases in addition to those mentioned above so as to meet the fall demands without any considerable change in the open market rates.

see letter 9/29/27

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Honorable Edn 1 P t 9/28/27.

FEDERAL RESERVE BANK OF NEW

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Fancher:

Thinks we should have a meeting, and if we decide to increase our portfolio it should be done in the expectation of making liberal sales around the turn of the year.

Norris:

Is opposed to further purchases unless the demands upon us in New York become excessive.

Expresses some doubt as to the speculative situation in the Stock Exchange.

Would like to have meeting held in Philadelphia.

Personally, I should like to see a meeting held in New York if it could be arranged on the day that our directors meet, as an exchange of views with these gentlemen, who are in close contact with affairs here, I believe would be helpful to everybody.

After considering this letter, could you not have your secretary call me on the telephone so that we can talk it over?

I beg to remain,

Very truly yours,

Bei: Kovong

Honorable Edmund Platt, Federal Reserve Board, Washington, D. C.

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10/10/27

OF NEW YORK

September 29, 1927.

Dear Mr. Platt:

Supplementing my letter of yesterday, possibly I was not clear as to just what had been done so far in the System investment account:

We are concluding the sale of the balance of our sterling which will add about \$10,000,000 or \$12,000,000. You will see, therefore, that the total purchases made to date, except those which offset withdrawals of funds from the market due to sales of gold or of sterling, amount to only \$80,000,000.

I am attaching a statement from which you will observe that the difference between the amount of credit now being furnished by the Federal Reserve System this year and last year very nearly offsets the addition to our gold due to imports during the first seven or eight months of this year; also that the seasonal increase in the amount of Federal Reserve credit being employed since the first week in August is \$130,000,000 for 1927 as against \$120,000,000 for 1928. Roughly speaking, imports of gold this year are to some extent offset by reductions in our earning assets, and the seasonal increase is almost exactly what it was last year for the same period.

In view of the replies received from the other members of the committee, and considering the fact that our money rates are still comfortable and that the

FEDERAL RESERVE BANK OF NEW

Mr. Platt

9.29.27.

exchange rates have held pretty firm, we are now disposed to suggest that the meeting of the Open Market Investment Committee be deferred for a fortnight or thereabouts and shall then be held in Washington after Mr. Young is there. We can then review the whole situation. And this meeting, coming but a few weeks before the Governors Conference, will enable us to discuss the results of the meeting at the time of the conference with all present.

I hope this is satisfactory to you and your colleagues.

Sincerely yours,

Nosk

Honorable Edmund Platt, Federal Reserve Board, Washington, D. C.

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Sept. 17 1187

Daily Average of Total Bills and Securities held by System (In millions of dollars)

Wook	Week Week			
<u>Ended</u>	Ended			
1926		1927		
Aug. 7	1163	Aug. 6	1016	
14.	1133	13	1004	
21	1152	20	1019	
28	1161	27	1052	
Sept. 4	1191	Sept. 3	1080	
11	1205	10	1144	
18	1205	17	1181	
25	1240	24	1121	
3 days end	bel	3 days end	ed	
Sept.28	1283	Sept.27	1147	

+12.0

+130

From

Office Correspondence

FEDERAL RESERVE BOARD Date 7/1/27 333-6-1

Subject:___

On December 3, 1925, the Federal Reserve Board considered a report submitted by the Open Market Investment Committee at the Conference of Governors held in November, and following a meeting with the members of the Committee on the same date, adopted a resolution declaring itself in favor of the purchase of a limited volume of short term government securities, it being understood that the Board reserved the right to discontinue purchases and to require the sale of any of the securities purchased at any time it might deem expedient. The minutes of the Committee show that it was understood that the Chairman would ask for the views of the Federal Reserve Board and the participating reserve banks as to further purchases after a total of \$100,000,000 had been acquired. The Committee agreed that only early maturing obligations of the Treasury should be purchased. At the beginning of the year 1924 the Open Market Investment Account amounted to \$12,773,000. By the end of Jamuary the account amounted to something over \$51,000,000 and a meeting of the Committee was held in Washington on February 8th at which the principal subject of discussion was the increased price of government securities. One of the actions of the Committee was "That the authorized prices for purchase of government securities be revised to an extent that will permit of increased purchases in moderate volume, say up to the amount of \$100,000,000 as previously agreed upon ***."

Another meeting of the Committee was held with the Board on February 25th at which the Committee recommended the extension of the purchases of Treasury notes and certificates to include all maturities up to and including the issues maturing in the year 1927 and voted to authorize the Chairman to submit to all participating banks a recommendation that further purchases, not exceeding \$100,000,000, be made at a new schedule of prices to be approved by the Committee, after the first \$100,000,000 purchase had been completed. Apparently this action of the Committee was mever submitted to the Board. At that time (February 27, 1924) the account amounted to \$84,090,500. A new schedule of prices for purchases of securities was shortly afterwards approved by all Federal Reserve banks, including issues maturing up to December, 1927, and the account began to expand until April 22, 1924, the date of the next meeting of the Committee when it had almost reached the \$200,000,000 mark. At this meeting it was voted that additional purchases for the account be authorized up to an amount not exceeding in the aggregate \$250,000,000 and that within this limit the Committee might make purchases at its discretion at current market prices. By May 28, 1924, the account had expanded to \$258,093,300, and at a meeting of the Board and the Committee held in Washington the following day, May 29th, it was voted that the holdings in government securities for special investment account be increased by an additional \$150,000,000, such purchases to be made at the discretion of the Committee at current market prices. This action raised the limit of the account to \$400,000,000. At a meeting of the Committee held in Boston on July 16th, it was voted to raise the limit of government securities for the special account from \$400,000,000, at which figure it then stood, to \$500,000,000, such purchases to be made at the discretion of the Chairman as to prices and to be so

Office Correspondence

FEDERAL RESERVE BOARO

Date

То _____

Subject:__

From_

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conducted as to swoid or minimize changes in the credit situation or the market quotations for the securities. It was also voted that the Committee express the view that it would be in favor of increasing still further the limit of \$500,000,000 if conditions remain substantially as they now are and that the Federal Reserve Board be asked to give this proposal its consideration and furnish the Committee with an expression of its views. The Board at a meeting on July 29th approved the recommendation of the Open Market Committee that the holdings be increased to \$500,000,000 but action on the question of further increasing the account to \$600,000,000 was deferred. The peak of holdings of securities in the Open Market Investment Account was reached on September 17th when they amounted to \$510,768,000, but purchases and sales during the ensuing week for later execution actually balanced the account on that date at \$500,000,000 where it continued until the middle of November, 1924. At a meeting of the Committee held in Chicago on October 24th, a resolution was passed that the Chairman should be given authority to buy or sell, after conferring with the other members of the Committee, up to \$100,000,000 of government securities in order to meet any situation in the money market which might develop. As stated above, however, the account continued at \$500,000,000, and at a meeting of the Board held on November 10th, the Secretary was instructed to confer with the Chairman of the Open Market Committee and report the present status of the resolution adopted at the October meeting. However, another meeting of the Committee was held in Washington the next day, following which the Federal Reserve Board approved several recommendations of the Committee including (1) That the Committee continue to make temporary sales or purchases from the special account as may be necessary to stabilize money conditions at tax periods; (2) That the Committee be authorized to commence as soon as practicable to exchange certificates maturing after December 31, 1925 for shorter term certificates; (3) That the Committee be authorized to replace \$65,000,000 of December maturities to such extent as may be advisable in consideration of market conditions at that time and to offset exports or earmarking of gold for foreign account to such extent as may be advisable in consideration of market conditions but not to exceed \$100,000,000; and (4) That the Committee be authorized to sell investments in the special account in order to reduce that account to the amount of \$500,000,000 as rapidly as money conditions make it practicable. There was an understanding that another meeting of the Committee would be held some time during December. This meeting was held on December 19th at which time the account had been reduced to about \$435,000,000. The Committee reported that since the last meeting the principal operations of the Committee had been the sale of March 15th certificates of indebtedness to facilitate the distribution of new Treasury 4% bonds and the redemption of \$65,000,000 of December 15th maturities. It was felt by the Committee at that time that the account should probably not be increased above the then amount but that from time to time some of the holdings should be liquidated and this was concurred in by the Board with the understanding that a meeting Digitized for FRASEF

Office Correspondence

FEDERAL RESERVE BOARD

Date

То ___

Subject:___

From__

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would be held shortly after the first of the year to review, before any further action is taken, the effect of sales and of advances in bill rates which had been agreed upon. At the end of the year the System account stood at \$449,035,000.

On January 8, 1925, the Open Market Investment account stood at \$398,125,500. A meeting of the Committee was held in New York on January 9th at which it was voted "That the Committee stand ready to make such further sales of securities as seem necessary from time to time in view of changing money conditions to prevent undue ease in the money market." According to the minutes of the Committee "This was also concurred in by all the members of the Federal Reserve Board present." (Messrs. Crissinger and Platt). Approval was given to the sale to the Treasury of certificates of indebtedness held in the account maturing March 15, 1925, or September 15, 1925, and it was also voted to approve the sale of some \$40,000,000 of June and September certificates to a dealer in New York. The minutes of this meeting of the Committee were presented to the Board on January 16th and were noted with approval.

Another meeting of the Committee was held with the Board on February 25, 1925, at which time the System account stood at about \$270,000,000. At this meeting the Committee voted that in case the flow of funds to New York continued the Committee should continue to seal securities from time to time to prevent undue ease in money conditions, such sales to be limited for the present to an amount to bring the special System account down to \$200,000,000. No action by the Board was deemed necessary.

At the time of the Governors' Conference (April 6, 1925) a meeting of the Open Market Investment Committee was held in Washington at which it was voted to be the sense of the Committee that, under authority now vested, in it, the Committee should increase its holdings up to appreximately \$300,000,000 as and when market conditions warrant, it being the belief of the Committee that present and prospective gold movements make this increase advisable. At the close of business March 31, 1925, the account stood at \$245,203,500. The minutes of this Committee meeting were submitted to the Board at a meeting on April 23rd and were merely ordered circulated.

At a meeting of the Board held on May 21, 1925, attention was called to the fact that no purchases had been made by the Committee under its authorization to increase the account by purchasing \$50,000,000 of securities from time to time. The Board advised the Chairman of the Committee that upon review of existing conditions it felt that before any purchases to increase the aggregate of the account were made they should be submitted to the Board for consideration. Governor Strong replied that the recent distribution of investments, together with the situation in the money market, made it unnecessary for the present to consider exercising the authority and that he would not feel willing to do so without further consultation with the Committee and the Board.

At the time of the next meeting of the Committee on June 24, 1925, the account amounted to \$221,408,800. At this time it was the consensus

Office Correspondence

FEDERAL RESERVE

Date

То _____

Subject:___

From

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of opinion that further sales from the account might be necessary, under existing authority, for an amount which might bring the account down to \$200,000,000 if there appeared to be a large flow of out-of-town funds to New York during the summer dull period. No formal vote was taken, however, and it was agreed that the members of the Committee should be consulted before any sales were made. The minutes of this meeting were presented to the Board on June 26th and were ordered circulated.

On June 29th the Board approved a recommendation of the Open Market Committee that \$31,000,000 of June 15th maturities in the account be replaced, \$15,000,000 immediately and \$16,000,000 at a later date.

On September 21, 1925, the account stood at \$210,000,000 and a meeting of the Committee was held in Washington on September 22nd. It was suggested by the Committee that the present situation appeared to call not for open market operations but careful consideration of the position of the discount rate which was cutside of the province of the Committee. Following the meeting of the Committee a motion by Mr. Miller was voted on and lost. The motion read as follows:

"Resolved that a reduction of holdings of government securities, to be followed in due course by an advance in the discount rate of the Federal Reserve Bank of New York should its discounts show an appreciable increase, will be conducive to the maintenance of a good state of business sentiment and to a healthier credit condition."

At the time of the Fall Conference of Governors the Open Market Investment Account was still being maintained at \$210,000,000. In the report submitted to the Conference, it was stated by the Committee "The influence of our rates is now felt on a considerable body of borrowings and if it appears desirable the next step should possibly consist of changes in discount rates rather than changes in open market holdings. It also seems desirable to maintain the present account at at least its present size so that we may be prepared to deal with any emergency situation. The Committee, therefore, is not prepared to recommend at present any change in our holdings of securities." Reference was made to preparations for the usual turn of the year slackening in the demand for credit and the Committee stated "It will, therefore, be well to consider some temporary purchase of securities at the time of the Christmas currency demand to be sold in January. The wisdom of such a policy can not be determined upon in adwance. This report was considered at the meeting of the Board on November 23, 1925. The ultimate action of the Board was to approve in general the report of the Committee and to advise the Committee that an immediate meeting is desired to consider whether changed conditions do not make a change in the Open Market policy of the System desirable. One of the matters referred to the Committee was the question of allowing December 15th maturities of government securities to run off without replacement.

From____

Office Correspondence

FEDERAL RESERVE

То		 Subject:

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In accordance with this action a meeting of the Committee with the Board was held in Washington on December 1st. At this meeting it was the consensus of opinion that the Treasury certificates held in the account amount to about \$38,000,000 maturing on December 15th, should be replaced by other maturities to be purchased by the Committee and this procedure was approved by the Board.

On December 21, 1925, conditions in New York City resulted in the directors of that bank authorizing the Governor to make open market purchases for its account up to \$50,000,000. Governor Strong took the matter up with the Board and expressed the opinion if the purchases were made they should be for the System's account, although if the Board disapproved the transactions as a System one the New York bank would carry in its own portfolio \$18,000,000 of purchases which had already been contracted for. After discussion, the Board approved the recommendation that there be purchased for the System's open market account from \$25,000,000 to \$50,000,000 of securities. It was understood that these securities would probably be resold during the early part of January. Under this authority the account by the end of the year was increased to \$260,000,000.

A meeting of the Open Market Investment Committee was held in New York on January 18, 1926, and the following day Governor Crissinger reported to the Board that the Committee had discussed the question of disposing of the \$50,000,000 of short term government securities which it acquired during the latter part of December for possible resale in January. At this time, the account amounted to \$260,000,000. He stated that the Committee felt in view of existing market conditions and the fact that there were about \$65,000,000 of securities in the account which would mature the following March that it would not be advisable to sell the \$50,000,000 immediately, but that developments in the situation should be closely watched and action taken at such time as developments disclose the desirability of selling. On January 25th, the Board considered a letter from the Deputy Governor of the New York bank advising that money conditions in New York were easing considerably with the result that a moderate demand for short term government securities has sprung up and advising further that the New York bank is inclined to the view that it might be well to supply the market from time to time with a moderate amount of these securities, not exceeding \$50,000,000 from the System's open market investment account, as and when definite orders are received. The proposal set out in the Deputy Governor's letter was noted by the Board with approval.

At a meeting of the Board on March 8th, Governor Strong appeared before the Board for a discussion of present and prospective business conditions. He stated that the System held about \$100,000,000 of government securities which would mature on March 15th, about \$34,000,000 of which were held for account of foreign banks and the remainder in the open market investment account. The account at that time amounted to about \$245,000,000. He stated that the bank had to date received from foreign correspondents requests to replace about \$31,000,000 of securities held for their account and that he thought it advisable, and would recommend, that the run off of about \$66,000,000 of securities from the open market investment account be

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FEDERAL RESERVE BOARD

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replaced if it possible to do so. He stated, however, that it might be impossible to replace the entire amount. Later on in the meeting, the Board voted to "interpose no objection to the Open Market Investment Committee replacing so far as possible the \$66,000,000 of government securities held in the System account which mature on March 15th."

A meeting of the Committee was held in Washington on March 20th, at which meeting "it was the unanimous opinion of the Committee that other than to replace March 15th maturities no action should be taken, at least until after March 23rd, when the Treasury pays off \$121,000,000 of Third Liberty Bonds and when readjustments after the usual quarter day movement will have been completed. It was felt that until that time it will be difficult to judge the normal trend of the money market." At a joint meeting with the Federal Reserve Board on the same day "individual members of the Federal Reserve Board expressed their agreement with the recommendation of the Committee relative to replacement of March 15th maturities. but no formal action was taken with respect either to that or to the suggestion as to possible future purchases. At that time the System account stood at \$178,588,900. The question of future purchases was discussed in a report which the Committee submitted to the Governors' Conference then in session which contained the statement "we should prepare ourselves now for a prompt purchase of some further amount of securities if and when there should be further evidence of a recession in business activity, especially if there is no further liquidation in the amount of Federal Reserve credit employed.

At a meeting of the Board heldon March 23, 1926, it was voted "that the Committee be advised that the Board has considered the report and approves the proposal contained therein to the effect that the System's special investment account should not be changed in amount, except that the March 16th maturities should be replaced as conditions seem to warrant." The following day there was a discussion of open market policy at a joint session of the Board with the Governors' Conference, following which the Conference voted "if developments in the monsy market indicate any need for doing so the amount of securities in the System account be increased to \$300,000,000, but no purchases shall be made after April 16, 1926, without further consideration." The ultimate action of the Board was to adopt a motion "that the recommendation of the Open Market Investment Committee and the Governors' Conference be approved."

In a letter dated May 28th (at which time the account stood at \$275,000,000) the Acting Chairman of the Open Market Investment Committee, with the approval of the Committee, took up with the Board the question of replacing certificates of indebtedness maturing June 15, 1926, held in the System's special investment account totalling \$36,525,500. The Acting Chairman stated "this, of course, will not change the face amount of government securities held in the special account and is in line with the usual procedure." This replacement was approved by the Board at its meeting on June 2nd.

At a joint meeting of the Board and the Committee held in Washington

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on June 21st, it was voted "that it is expedient that the System holdings of government securities should be maintained for the present at the existing amount, approximately \$275,000,000 (actual holdings \$270,500,000) but with authority to make temporary purchases or sales, within a range of \$50,000,000, as may be deemed advisable by the Committee, any such purchases to be liquidated within a reasonable time as market conditions warrant."

At a meeting of the Committee held in New York on August 17th, it was voted that a sale of approximately \$40,000,000 of Third Liberty Loan bonds, about \$25,000,000 of which were in the System account, be made to the Treasury without replacement, and that a meeting be called the early part of September to consider conditions at that time. It was also voted to approve the sale without replacement of approximately \$20,000,000 of securities from System account to foreign correspondents. This action of the Open Market Investment Committee was presented to the Board at a meeting on August 24th, by the submission of the minutes of the Committee's meeting which were ordered circulated without action. A previous advice received from the Secretary of the Open Market Committee that the proposed sale to the Treasury had been approved by the Federal Reserve banks was noted without action at a meeting of the Board held on August 23rd.

The Open Market Committee meeting held on September 10, 1926, voted "that the Open Market Account should be maintained for the present at \$200,000,000, with the understanding that the Committee could, in its discretion, increase or decrease the account by not more than \$50,000,000." At that time the account stood at about \$210,000,000. The Board on the same date considered the Committee's report and voted "to authorize the Open Market Investment Committee to maintain the System's special investment account at from \$200,000,000 to \$225,000,000, therefore increasing the limit of the account to \$225,000,000.

The Open Market Investment Committee, at the time of the 1926 Fall Conference of Governors, submitted a report containing the suggestion that "it may be desirable to purchase up to \$100,000,000 of securities during the coming six weeks to be sold again at such time as credit conditions appear to make that course desirable. (The account at that time stood at \$200,000,000.) At a meeting on November 10th, the Board directed that a letter be addressed to the Acting Chairman of the Committee stating "the Board understands from the Committee's report that as the Committee views the situation at this time there is no need for action looking toward a change in the amount of the special investment account, as approved by the Board on September 10, 1926, and in this view the Board concurs. The Board, therefore, construes the Committee's suggestion as an expression of opinion on the part of the Committee that in the event of a future change in the present situation, it may be desirable to give consideration to increasing the account temporarily."

At a meeting of the Board on March 21, 1927, with the Open Market Investment Committee, the Committee recommended that it be authorized to replace \$25,000,000 of government securities which were held in the special

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investment account and matured March 15th, and that the Committee be authorized to purchase an additional \$50,000,000 of short term government securities should a situation develop that would seem to justify such action.
At that time, the Systemaccount stood at about \$175,000,000. The Board
placed a limit of \$200,000,000 upon the account by authorizing the replacement of the \$25,000,000 of March 15th maturities, but did not approve the
recommendation that the Committee be authorized to purchase an additional
\$50,000,000.

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FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

June 22, 1927.

Dear Governor Strong:

Receipt is acknowledged of your letters of June 16th and 20th, supplementing your letter to me of June 9th and commenting upon the changed position of the money market due to the unexpectedly large overdraft of the Treasury in connection with June 15th transactions. I note your views regarding the possibility of further purchases by the Open Market Investment Committee and note the opinion of the officers of your bank concurred in by the members of your Board of Directors that it might be well to defer any further purchases until after the first of July, even though in the meantime money rates might have advanced somewhat in the general money market.

Your letters were brought to the attention of the Board and there was discussion of several of the matters mentioned. Particular reference was made to your statement that the Open Market Investment Committee had realized only about \$15,000,000 of the increase in the System's account which was contemplated when the Committee and the Board discussed the matter at the time of the Governors' Conference, and the further statement that "to realize fully the aims we had in mind at that time, we might still purchase an additional \$100,000,000 between now and August 1st."

Such purchase of an additional \$100,000,000 would result in an

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enlargement of the System's investment account beyond the limit approved by the Board at its May 13th meeting. Action of the Board at that time was to approve the Committee's recommendation to purchase sufficient additional short term government obligations to bring the total of the investment account up to \$250,000,000, which is the amount now held in the account, accordingly to the Board's latest information.

In view of the contingencies pointed out in your letters and such other information as the Board has regarding money market conditions, it may later on be advisable to make additional purchases of securities on System account. The enlargement of the System's account in the near future, however, raises a new question, and the matter should, therefore, be submitted to the Board in the usual course, especially in view of the fact, as stated in your letter of June 20th, that at this time and "until the true position of the money market discloses itself", it can not be determined whether additional purchases would be advisable, in the immediate future.

Very truly yours,

D. R. Crissinger, Governor.

Mr. Benjamin Strong, Governor, Federal Reserve Bank, New York, N.Y. pared by Mr. Muelle an

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

June 17, 1927.

Dear Governor Strong:

Receipt is acknowledged of your letter of June 16th, supplementing your letter to me of June 9th and commenting upon the changed position of the money market due to the unexpectedly large overdraft of the Treasury in connection with June 15th transactions. I note your views regarding the possibility of further purchases by the Open Market Investment Committee and note the opinion of the officers of your bank concurred in by the members of your Board of Directors that it might be well to defer any further purchases until after the first of July, even though in the meantime money rates might have advanced somewhat in the general money market.

Your letter was brought to the attention of the Board at its meeting this morning, and there was a discussion of several of the matters mentioned. Particular reference was made to your statement that the Open Market Investment Committee has realized only about \$15,000,000 of the increase in the System's account which was contemplated when the Committee and Board discussed the matter at the time of the Governors' Conference, and the further statement that "to realize fully the aims we had in mind at that time, we might still purchase an additional \$100,000,000 between now and August 1st."

Digitized for FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis Such purchase of an additional \$100,000,000 would result in an enlargement of the System's investment account beyond the limit approved by the Board at its May 13th meeting. Action of the Board at that time was to approve the Committee's recommendation to purchase sufficient additional short term government obligations to bring the total of the investment account up to \$250,000,000.

The System's special investment account amounts at this time to approximately \$235,000,000, leaving a leeway for future purchases of \$15,000,000 to reach the limit previously approved.

In view of the contingencies pointed out in your letter and such other information as the Board has regarding money market conditions, it may later on be advisable to make additional purchases of securities on System account. The enlargement of the System's account in the near future, however, raises a new question, and the matter should, therefore, be submitted to the Board in the usual course.

Very truly yours,

D. R. Crissinger, Governor.

Mr. Benj.Strong, Governor, Federal Reserve Bank, New York, N.Y.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

June 17, 1927.

Dear Governor Strong:

Receipt is acknowledged of your letter of June 16th, and supplementing your letter to me of June 9th, commenting upon the changed position of the money market and the unexpectedly large overdraft of the Treasury in connection with June 15th transactions. I note your views regarding the possibility of further purchases by the Open Market Investment Committee and note the opinion of your Bank concurred in by the members of your Board of Directors that it might be well to defer any further purchases until after the first of July, even though in the meantime money rates might have advanced somewhat in the general money market.

Your letter was brought to the attention of the Board at its meeting this morning, and there was a discussion of several of the matters mentioned. Particular reference was made to your statement that the Open Market Investment Committee has realized only about \$15,000,000 of the increase in System's account which was contemplated when the Committee and Board discussed the matter at the time of the Governors' Conference, and the further statement that "to realize fully the aims we had at

ATBOARD MEETING
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that time, we might still purchase an additional \$100,000,000
between now and August 1st." Such purchase of an additional \$100,000,000 would result in an enlargement of the System's investment account beyond the limit approved by the Board at its May 13th meeting. Action of the Board at that time was to approve the Committee's recommendation to purchase sufficient additional short term government obligations to bring the total of the 3-mailteeth investment account up to \$250,000,000.

The System's special investment account amounts at this time to approximately \$235,000,000, leaving a leeway for future purchases of \$15,000,000 to reach the limit previously approved.

In view of the contingencies pointed out in your letter and such other information as the Board has regarding money market conditions, it may later on be advisable to make additional purchases of securities on System account. The enlargement of the System's account in the near future raises a new question, and the matter should be submitted to the Board before any such purchases are made.

Corner

Very truly yours,

D. R. Crissinger, Governor.

Mr. Benjamin Strong, Governor, Federal Reserve Bank, New York City.

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO THE FEDERAL RESERVE BOARD

June 16, 1927.

Dear Governor Strong:

Receipt is acknowledged of your letter of June 16th, supplementing your letter to me of June 9th, and commenting upon the changed position of the money market due to the unexpectedly large overdraft of the Treasury in connection with June 15th transactions. I was very much interested in your views regarding the possibility of further purchases by the Open Market Investment Committee and note the recommendation of the officers of your bank, concurred in by members of your board of directors, that it might be well to defer any further purchases until after the first of July, even though in the meantime money rates might advance somewhat in the general money market.

This morning, I brought your letter to the attention of the Board, and general discussion was carried on of the various matters referred to.

in your letter. Particular reference was made to your statement that the Open Market Investment Committee has realized only about \$15,000,000 of the increase in the System's account which was contemplated when the Committee and the Board discussed the matter at the time of the Governors Conference, and that "to realize fully the aims we had in mind at that time, we might still purchase an additional \$100,000,000 between now and August 1st."

The action of the Board at the time of the May meeting specifically,

was to approve a recommendation of the Open Market Investment Committee "that it shall be the policy of the Committee between now and August 1st, next, gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short term Government obligations to bring the total of the Committee's investment account up to \$250,000,000. The System account at the present time amounts to approximately \$235,000,000, and members of the Board are of the opinion that what was in contemplation at the time of the May meeting, to wit, the building up of the Open Market Investment account, has been substantially satisfied. Of course, there is the question as to whether or not it would be advisable, in view of the contingencies pointed out in your letter and other information which the Board has before it, to build up the account to a larger amount by the purchase of additional securities. Whether, as suggested in your letter, additional purchases of \$100,000,000 should be made between now and August 1st is not clear to the Board, which, however, is of the opinion that the situation should be reviewed and the matter submitted to the Board before any such purchases are made.

Very truly yours,

D. R. Crissinger, Governor.

Hen. Benj. Strong, Governor, Federal Reserve Bank, New York, N.Y.

FEDERAL RESERVE BANK

OF NEW YORK

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Dear Governor Crissinger:

In our telephone conversation on Friday you mentioned that some members of the Poard felt that the purchases already concluded by the Open Market Investment Committee had completed the amount which was recommended by the committee to the Federal Reserve Board in its last report, and that the position should now be reviewed again to determine whether any further purchases were justified.

We have proceeded in making these purchases in accordance with my understanding of the policy agreed upon by the Board with the Open Market Investment Committee in the past, that large movements of gold such as we have recently experienced are, as a matter of course, to be offset by purchases or sales of Open Market Investment Committee holdings. I think you will find this general view of the committee's policy referred to in previous reports of the committee, three of which I have before me, that is, November 8, 1926, September 10, 1926, and the last meeting held in May. The records of the earlier meetings of the committee are, as I recall, even more specific on this point, but they are not before me as I dictate that letter.

To review the present situation, when the Bank of France secured the return of \$90,000,000 of gold in London we negotiated for its purchase, as you know, on very short notice in order to avoid its getting into the country when, having once crossed the exchange barrier, it would form a permanent part of our gold reserves. \$30,000,000 we were unable to arrest in London, but we partly offset the effect of its addition to bank reserves by sales, as I recall, of about \$15,000,000 of the System's securities. The purchase of \$60,000,000 in London was effected by our selling a like amount of the System's securities to the Bank of France and so avoiding the expansion of bank reserves which would have resulted from our paying

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for the gold without reducing our investment account. While the effect of this was to give the Bank of France dollar balances for \$90,000,000 in New York, about \$75,000,000 or thereabouts of this gold was actually offset by sales of securities.

Now exactly the reverse operation has taken place as to \$100,000,000, because the Bank of France has withdrawn \$100,000,000 of their deposits with New York banks, transferred them to us, and purchased that amount of gold, thus effecting a reduction of bank reserves in this city of \$100,000,000. As explained to you by telephone, this made it necessary to offset the loss of reserves by purchases of securities as rapidly as they could be made. Had we failed to do so we would have had a sharp advance in interest rates at a time when it would have caused inconvenience to the Treasury financing then under way and would have increased the likelihood of even higher rates which we also expected after the June financing was concluded.

As in previous similar cases we did not feel that these purchases formed a part of the \$115,000,000 authorized by the Board following the submission of the committee's report of May 9. In fact we felt that under that authority only \$15,000,000 of purchases had been effected and that the general scheme of the report to continue purchases up to \$250,000,000 before August 1, if money market conditions made that possible, clearly contemplates that regard for money market conditions and for the volume of borrowing in New York would be the guiding principle. Were this not the case the effect of this loss of \$100,000,000 of gold would be to entirely nullify the action of the Open Market Investment Committee and the Federal Reserve Board.

As explained by telephone and in my last two letters on this subject, we are anticipating heavy borrowing this week, although the amount cannot accurately be forecast, It will furnish the opportunity to enlarge the committee's holdings of securities which the committee believes, and which we felt the Board believed, was a desirable thing to accomplish if it could be done without creating an undue ease

FEDERAL RESERVE BANK OF NEW

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of money, but the continued enlargement of the security loan account seemed to justify our delaying these purchases for a short time so as to see what effect a brief period of somewhat higher rates would have.

We realize, as the Board doubtless does, that there has been a considerable speculation in stocks, although far less active and menacing in its proportions than that which had developed in either Berlin or Paris. Just as is stated in the committee's report and in my previous letters this situation will require careful scrutiny from day to day until the true position of the money market discloses itself. But I am sure the Board has in mind that if a period of definitely higher rates now develops and no purchases are made practically all the bills in the market will come to the Federal Reserve Bank which might make it necessary for us to advance our bill buying rate, and that, in turn, make it necessary to advance our discount rate. Such action at this time we do not believe is justified, and our directors feel would be distinctly harmful.

So, summarizing the position as it appears to be to-day, I should say that we are quite willing to watch the effect of somewhat higher rates for a short period, but we believe it would be hazardous at this time to allow a general revision of the level of interest rates to occur, for the reasons -

- (1) That it might force an increase in our bill rate and ultimately our discount rate,
- (2) That such an increase would be detrimental to the business of the country,
- (3) That it would have a tendency to depress the value of sterling and ultimately the continental exchanges, and possibly embarrass us by starting another gold import movement, and
- (4) That with the heavy refunding operations now under way and in prospect for the Treasury we believe that any general advance in the level of interest rates, unless necessitated by other impelling reasons, might have a detrimental effect upon the Treasury's plans which would be quite unnecessary.

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I have endeavored, by telephone and letter, to keep you and the members of the Board fully informed of these developments from day to day in the hope that what we are doing was fully understood and would meet with the Board's entire approval. If that is not the case may I ask you to let me know at once, as the situation is certainly one of sufficient importance to make it necessary that there should be no misunderstanding of the Board's action and the committee's policy.

I beg to remain,

Sincerely yours,

Pair Hong Chairman

of the Open Market Investment Committee.

Hon. D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

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FEDERAL RESERVE BANK

OF NEW YORK

CONFIDENTIAL

June 16, 1927.

My dear Governor Crissinger:

Referring to my letter of June 9 in regard to transactions in the open market there has been some change in the position due to the unexpectedly large overdraft of the Treasury in connection with June 15 transactions which leads me to write you further as to the position of the money market and as to prospective purchases by the Open Market Investment Committee.

We had calculated, with such information as we usually have, that the amount of the overdraft would be, in round figures, \$180,000,000. It turned out to be \$240,000,000, the disbursements for the Treasury's account being larger than the preliminary estimates. Against this large disbursement pending tax collections we distributed \$104,000,000 of participations to various member banks, leaving the net amount of funds put into the market as a result of Treasury transactions \$136.000.000. This means, of course, that there must be withdrawn from the money market between now and early next week not only the \$136,000,000 which will repay the government's temporary certificate of indebtedness (net) but also possibly \$30,000,000 more to restore the government's working balance in the Reserve banks. In other words, on top of borrowings from us aggregating between \$25,000,000 and \$50,000,000 at the present time, the market will lose, say \$165,000,000, and we anticipate that the borrowing in all forms at this bank next week for a time may exceed \$200,000,000, and this, of course, will be in the week prior to the double holiday when we have to meet quite a heavy demand for currency, a demand on the part of those who practice window dressing at semi-annual periods, as well as a demand arising from the very heavy July 1 interest and dividend disbursements.

One hundred million dollars of the securities now held in the open market

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account were purchased to offset the loss of that amount of gold earmarked for foreign account as described in my letter of June 9, so we have only realized about \$15,000,000 of the increase in the account which was contemplated when the committee and the Board discussed the matter at the May meeting. So that, to realize fully the aims we had in mind at that time, we might still purchase an additional \$100,000,000 between now and August 1.

Having in mind, however, the size of the Stock Exchange loan account and the expressions of views contained in your letter of May 13, our directors to-day, after a full discussion, took the view which is held by the officers of the bank that it might be well to defer further purchases until possibly after the first of July, even though in the meantime money rates might advance somewhat in the general money market.

This was the recommendation of the officers of the bank after full discussion of the situation, and we thought we should bring it immediately to the attention of the Board. We are, however, prepared to act promptly in making further purchases in case money market conditions indicate the need for it.

I hope you will be good enough to bring this letter to the attention of the Board as it somewhat elaborates the report contained in my letter of June 9.

I beg to remain,

Very truly yours,

Governor

Hon. D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

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June 11, 1927.

My dear Governor:

I have your letter of June 9th in which you give a resume of your doings in the open market under the authorization of the Board. I have brought this letter to the attention of the Board which proved to be of great interest.

Sincerely yours,

D. R. Crissinger.

Mr. Benj. Strong. Governor, Federal Reserve Bank, New York, R. Y.

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FEDERAL RESERVE BANK

OF NEW YORK

June 9, 1927.

Dear Governor Crissinger:

It will interest you to have a resume of the transactions in the open market which have been necessarily quite active because of the large amount of securities which we are called upon to buy.

As you have been advised we have made purchases of a total of \$100,000,000. offsetting exactly that amount of gold earmarked for account of one of our foreign correspondents, and that part of the transaction is concluded.

We have also concluded purchases aggregating a total of \$115,000,000 for delivery on or before June 15, to replace all of the maturities held in the System account and for the account of foreign correspondents maturing on that date. addition to that we have purchased in round figures \$16,000,000 for the System's open market investment account, this purchase having been made in connection with the adjustment of purchases currently being made for account of the Treasury Department, and so far that is all that has been done pursuant to the recommendations of the Open Market Investment Committee recently approved by the Federal Reserve Board.

Preparations for the June 1 financing, occurring simultaneously with the holiday at the end of May, necessitated somewhat heavier borrowing here than would ordinarily be the case, and the rates in the money market showed a tendency to stiffen somewhat, but we believe that the effect was only temporary and that the return flow of funds from the interior and of currency, coupled with the purchases which we have made, will leave rate conditions not greatly above where they were during the latter part of May.

The present situation is that the member banks in New York City owe us about \$50,000,000 and that the dealers owe us an additional \$50,000,000 under sales

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contract agreement. Between now and June 15 this indebtedness of the tanks and market to us may be somewhat further reduced. For a few days after the 15th as usual money will be easy, as Treasury maturities are in excess of tax payments, but after three or four days large tax payments will come out of the market. The amount of funds available to the market will be reduced from the present situation by approximately \$65,000,000 as a net result of June 15 maturities. That means that the New York banks and market will have to be borrowing from us at least \$150,000,000, and, on top of this, will come the usual extra demand for credit in connection with the end of the half year. This will give us a situation that we will have to think about and watch carefully. Further purchases will then be desirable.

Very truly yours,

Chairman

Open Market Investment Committee

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Hon. D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

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May 13, 1927.

Dear Governor Strong:

At the meeting of the Federal Reserve Board this morning, consideration was given to the report of the Open Market Envestment Committee, dated May 11, 1827, in which the Committee recommended: "(1) That no further sales of System securities be made in order to affect arrivals of gold from abroad now know/or anticipated" and "(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 undue effect upon the money market, the semmittee would expect to keep in mind any changes which might occur in the general level

The Beard veted to approve the report and recommendations contained therein, with the feeling that the semurities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the period of time mentioned.

of money rates, as well as the extent to which these purchases might effect a reduction in the amount of

Very truly yours,

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D. R. Crissinger, Governor.

Mr. Benjamin Strong, Chairman, Open Market Investment Committee, o/o Federal Reserve Bank, New York, H.Y.

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May 13, 1927

Statement of Mr. Cunningham

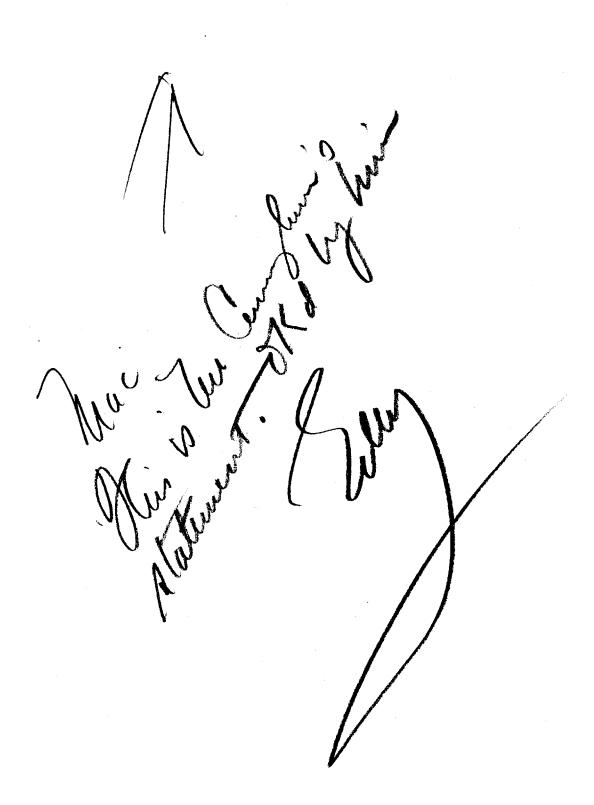
With the sincere hope that the view expressed in Mr.

Platt's resolution that the securities which the Open Market

Investment Committee recommends be purchased will be accumulated

gradually up to August 1st next, I am voting in favor of the motion.

With the sincere hope that the view expressed in Mr. Platt's resolution that the securities which the Open Market Investment Committee recommends be purchased will be accumulated gradually up to August 1st next, I am voting in favor of the motion.



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333.-6-1

EXCERPT FROM MINUTES OF THE FEDERAL RESERVE BOARD, MEETING OF MAY 13, 1927.

Filed 333, 1-25-9-27

"Resolved, that the Federal Reserve Board approve the report and recommendations of the Open Market Investment Committee, with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the time limit mentioned."

Revolved: Flat the Board appeare the report and recommedation of the Chen Marlat Committee, with the attent that the proposed purchase sequeties se should proposed to be purchand should be mit be account. Cately slowly and with a view to the possibility that it may not be cedrica. ble to purchase the full amount authriged, within the time limit mentioned.

AT BOARD MINITING
MAN 18 1927

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FBDERAL RESERVE BOARD

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То	Governor Crissinger	Subject:	333,- 61
From	Mr. Eddy.		9—9405

This is to remind you of the action of the Beard at its meeting yesterday in voting that the recommendations of the Open Market Investment Committee, which were submitted at that meeting, be received by the Beard and made special order of business for a date to be fixed by you after conference with the Chairman of the Beard.

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May 11, 1027. 333.+1

5/9/27

The Open Market Committee, after considering the attached management, and after discussion with the Federal Meserve Board, submittee the following recommendations of policy for the period ending August 1 mest:

- (1) That no further sales of system scenrities he made in order to offset arrivals of gold from abroad now known or anticipated.
- and August 1 mext, 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 "undue effect upon the memory market," the committee would expect to keep in mind any changes which might coour 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 recognised that some lowering of market rates for money might nevertheless justify such a reduction later in the year, especially at the principal firmucial 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.

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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 discuse with the Frensury Department these methods with which the Treasury is concerned, and requests that the Federal Reserve Foard give consideration to those particular items, such as recerves on time deposits, which relate to the regulations of the Federal Reserve Board.

PEN MARKET POLICY (1927)

PRELIMINARY MEMORANDUM RELATIVE TO OPEN MARKET POLICY

The principal transactions in the Special Investment Account since the last Governors Conference were reviewed in the chairman's report to the committee on March 21, and copies of this report were sent to all Governors. In accordance with the action taken at that meeting, purchases of 25 million dollars of securities were made in the market to replace March 15 maturities, and the Special Investment Account was thus restored to 200 million dollars, which is approximately the same amount as has been maintained for the past two years. Recent transactions resulting from large purchases of gold, are described hereafter.

General Credit Situation

For many months business has been active and has continued to maintain, and in some directions even to exceed, the rate of production and consumption of immediately preceding years, although a number of recent developments have been of a character which might have had a wide-spread unfavorable effect had the general business and financial situation not been fundamentally sound. These developments are, of course, the extensive floods in the lower Mississippi Valley, some overproduction and price declines in the oil industry, disturbing financial developments in Japan, reduced production and consequently reduced working time for labor in two or three large automobile concerns, and not so recently the collapse of a number of real estate and building speculations and of one or two large installment finance companies.

The total volume of credit in use, estimated from the reports of the reporting member banks, is now about a billion and a half dollars larger than a year ago. The considerable expansion of the last two

aring filed 333, -6:-

months has been distributed between increases in commercial loans, security loans and investments. On the other hand, the total amount of credit extended by the Reserve banks is about one hundred million dollars less than this time last year. As the net gold imports (excluding the movement now under way) within this period were about 105 millions, the reduction of Reserve bank credit has about offset gold imports.

The figures for Reserve System earning assets are as follows:

	(in	millions)		
	•		April 27,1927	April 28,1926.
Bills discounted			444	514
Bills bought in open market -			242	199
U. S. Securities			318	389
Total bills and securities -			1006	1114

While total discounts at the Reserve banks are smaller than a year ago, the difference is largely due to reduced borrowings by country banks as reporting banks in principal centers are borrowing nearly as much as they did a year ago. Money rates are about 1/2 per cent. above this time last year, as shown by the following table. The present tendency is for higher rates than last year. For example, time money is 3/8 higher than last year, 90-day bills are 1/2 higher, and Treasury certificates and notes show an even larger increase. The New York discount rate is 1/2 per cent. higher.

Money rates at New York April 28, 1927	April 28, 1926
Call money* 4	* 3 1/2
Time money - 90-day 4 3/8	4
Prime commercial paper 4-4 1/4	$4 \ 4 \ 1/4$
Bills - 90-day unendorsed 3 5/8	3 1/8
Treasury certificates and notes -	
maturing June 15 3.46	2.51
maturing September 15 3.51	3.07
Federal Reserve Bank of New York -	
rediscount rate 4	3 1/2
Federal Reserve Bank of New York -	
buying rate for 90-day bills 3 3/4	3 1/2

^{*} Prevailing rate for preceding week.

A review of the general credit situation, of rates and business, brings out the following striking facts:

- (1) That the general level of interest rates in New York, where changes of rates generally originate, is about 1/2 of one per cent, above last year, the discount rate of the Federal reserve bank also being 1/2 of one per cent, higher.
- (2) The amount of bank credit employed for conducting the country's business, at a volume certainly much above the average of the last few years, is only \$1,500,000,000 above what it was last year.
- (3) While irregularly distributed between the classes of goods, the general level of commodity prices has experienced a considerable fall, and over the greater part of the past year the decline in prices has been in both agricultural and non-agricultural commodities. Considering the reluctance of member banks to borrow from the Reserve banks, coupled with the considerable decline in interest rates which is occurring in Europe, the question is raised as to whether the somewhat greater restraint now being applied to the extension of credit at the money center (New York), coupled with the reduction of the total of the open market investment account over the past 18 months or two years from \$500,000,000 to less than \$200,000,000, has not gradually had the effect of exercising some pressure, imperceptible in any change over a short period, but now becoming apparent when examined as to its effects over a longer period.

Gold Movements

Between January 1 and May 1 of this year, gold imports into the United States have amounted to about \$110,000,000, including \$8,000,000 from Japan, and exports during the same period were \$26,000,000. Net imports during this period were thorefore \$84,000,000. Inasmuch as approximately \$14,000,000 of the gold exported was gold which had been earmarked before

the period under discussion, about \$98,000,000 was the net amount added to the monetary gold supply of the country during the first four months of the year. This gold movement, together with the imports of 1926, account largely for the fact that the System's earning assets show a decline during the past year, in spite of an increase of some billion and a half dollars in bank credit.

Entirely apart from the movement of gold referred to above, there have been some significant developments since May 1, not included in the above figures. During the last part of April, the Bank of France recovered approximately \$90,000,000 of gold from the Bank of England by the repayment of its credit to the Bank of England. Of this \$90,000,000, \$12,000,000 arrived in New York last week, \$18,000,000 is still on the water, and \$60,000,000 was purchased by the Federal Reserve Bank of New York on May 6 and is now held by the Bank of England under earmark for account of the New York bank. In addition to this Bank of France gold, \$2,500,000 has recently been imported from Australia, and another \$2,500,000 more is now on the water from Australia and expected to arrive in this country this week.

A somewhat disturbing factor arose in the probability of the importation and sale to the Federal Reserve Bank of New York of the \$90,000,000 of gold, negotiations for the purchase of which had been concluded by one of the New York member banks from the Bank of France. It was learned that space had been reserved on the steamers and arrangements had been made for shipping the entire amount of gold; in fact, one shipment was about to arrive in New York, and others were being loaded. In view of this situation, after consulting with all the members of the Open Market Investment Committee and with the Federal Reserve Board by telephone, it was arranged to purchase from the Bank of France all of the gold - nearly \$60,000,000 - which had not been shipped, and to sell the

Bank of France a like amount of the September maturity of certificates of indebtedness held in the Open Market Investment account. By this arrangement, the money market status remained unchanged, except as to the gold which had already been shipped, leaving the committee in position to determine later at its meeting whether these securities should be replaced or not. Securities were sold to offset \$9,000,000 of the \$12,000,000 already arrived, but no arrangements have been made for sales to offset the balance of the gold which will arrive from London and from Australia, amounting in all to about \$20,000,000. With the sale already made and further sales, if made to offset forther gold arrivals, the securities remaining in the System's portfolio account will be a little over \$100,000,000, too small an amount to afford security against possible future developments. This will be appreciated, for example, if the \$90,000,000 now purchased had arrived at a time when we had no portfolio of government securities available. It is clear, therefore, that the committee must from now on give careful attention to meeting this gold problem, either by increasing its portfolio in anticipation of future developments, or by adopting other measures. The method of doing so should be determined with regard to whether the time has or has not arrived when the Federal Reserve System can afford to put new funds in the market, the effect of which would be to reduce the borrowings of member banks, principally in New York, and possibly to reduce the System's holdings of bills. There are various possibilities for dealing with the gold problem as a whole which have never heretofore been discussed in the committee's report and which are now submitted simply for discussion. None of them are recommended at this time, but are intended simply as a summary of all possibilities. They are:

(1) The committee could replace the securities sold to the Bank

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bank borrowings in New York, which are now running on the average at from \$100,000,000 to \$150,000,000.

- (2) Those Federal reserve banks which have considerable holdings of long time bonds could dispose of those bonds, realize their profit and repurchase through the committee as a part of the committee's account, an equivalent amount of short time securities. These, with other short term government securities owned by individual Reserve banks, could be added to the System holdings without reducing the total earning assets of the individual Reserve banks, and thus increase the committee's account to over \$200,000,000.
- (3) Arrangements might be made with the Secretary of the Treasury for somewhat increasing balances carried with the Federal reserve banks, and reducing the amount carried with special depository banks.
- (4) Some or all of the \$75,000,000 of 2 per cent. Panama Canal bonds could be called and the national bank notes issued against them retired. Further purchases of the 2 per cent. Consols of 1930 could be made in anticipation of their possible retirement in 1930, as contemplated by the Secretary of the Treasury in his report of 1924.
- (5) By gradual stages, or all at once, the time schedule of the Par Collection System could be adjusted so as to increase the volume of uncollected checks and correspondingly reduce the reserve of members.
- (6) Plans could be undertaken for retiring the greenbacks, which however would require legislation.
- (7) Further amounts of the capital of the Federal reserve banks could be called.
- (8) The reclassification of reserve cities could be gradually undertaken so as to increase reserve requirements.
- (9) A readjustment of the relations of the Reserve banks to the market for gold could be effected if the Secretary of the Treasury saw fit

as authorized by law, to discontinue paying cash up to 98 per cent. of the value of imported gold, thus throwing the market for gold entirely upon the Federal reserve banks and enabling them to reduce the gold point for imported gold by the equivalent of a loss of interest for the period during which payment would be delayed. By reason of our Treasury practice, the United States is today paying the highest price of any world market for gold.

- (10) The Federal Reserve Board, of course, after adequate study, could revise the definition of what constitutes a time deposit, thus raising the reserve requirements. This is probably justified by the fact that something like 60 per cent. of the increase in bank deposits in the United States over the past ten years consists of that class of deposits which require only 3 per cent. reserve.
- (11) A revision of the regulations of the Federal Reserve Board in relation to the maintenance of reserves, by averaging reserves for a period of a week in Federal reserve bank cities, and two weeks in the rest of the country, could have the practical effect of somewhat increasing the amount which member banks must borrow.
- (12) The Federal Reserve Board could revise its ruling relative to currency in transit, which in effect reduces reserve requirements in those districts where the ruling is now applied.

The above comprehend most, if not all, of the possible measures available for dealing with the problem of gold imports in view of our reduced portfolio. They are submitted for consideration and study.

The possibility of gold imports must not be overlooked, and may indeed be imminent. The underlying causes of such a movement would be:

(1) The continued maintenance of our present level of interest

rates, somewhat higher than a year ago, in the face of declining interest rates and reducing bank rates in Europe.

- (2) The fact that our technical practice in dealing with gold makes this the best market in which to sell it and one of the most difficult from which to export it.
- (3) The possibility, regarded by some as the probability, that within the next two years Germany will be forced to ship us large amounts of gold in order to meet reparation payments in the standard year.
- (4) Heavy foreign payments to meet the service on all foreign loans.

Nor must the possibility be overlooked that conditions may change rapidly and instead of experiencing a large addition to our gold reserve, there is indeed a possibility, although more remote, that within the next few years we may sustain a large loss of gold.

Gold exports from this country can arise from two causes:

- (1) The first is the perfectly normal movement resulting from exchange rates reaching a level at which it is cheaper to make payments abroad by shipping gold than by buying exchange.
- (2) The other, however, can occur irrespective of the gold shipping point, because of large balances held in this country for account of foreign governments and foreign banks of issue, which, as in the case of Germany, may decide to take gold for reserve purposes, irrespective of the gold point.

No danger need be apprehended as to a normal export of gold, but we might sustain a large loss of gold under the second category at any time, and that we are now prepared to deal with successfully because of the large proportion of such balances held by the Federal reserve bank.

the export of which could easily be provided for by our purchasing the securities now held for account of our foreign correspondents. The only embarrassment likely to occur as a result of such a demand will be due to the lack of an adequate supply of American gold coin, concerning which discussion has been had from time to time with the Treasury.

Looking, therefore, to the future, that is, say for the next three years, the committee is of the opinion that the policy of the Federal Reserve System should be to prepare itself to deal with either a large import movement of gold or a large export movement of gold. Any other position would expose the System to the charge of lack of foresight.

In view of the many alternatives to be considered, and especially in view of the fact that whatever may be the policy of the System it will involve taking a definite position as to the money market, the committee prefers to defer any recommendation until after discussion with the Federal Reserve Board and a definite expression of their views.

Market 21, 21

FEDERAL RESERVE BANK

3 3 3 3 - 6-1

March 22, 1927.

2567

Dear Governor Crissinger:

In re: Open Market Investment Committee Meeting - March 21.

I have your letter of March 21 notifying me that the Federal Reserve Board as of that date approved the proposal to replace the \$25,000,000 short-term Government securities that were permitted to run off as of March 15, 1927, and that, in the event that it should presently appear desirable to purchase an additional amount, say up to \$50,000,000 of these short-term government securities, the Board will be prepared to act upon a recommendation of the Open Market Investment Committee, as a committee, or of the Federal Reserve Bank of New York, if the Committee prefers to leave the matter of such recommendation in its hands.

Thanking you, I am

Very truly yours,

J. H. CASE,

Acting Chairman,
Open Market Investment Committee.

Honorable D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C. muting spring 1

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333-4

March 21, 1927

Dear Mr. Case:

Agrand .

Following the meeting today with the Open Market Investment Committee, the Federal Reserve Board considered the Committee's recommendations, which you made verbally, to the effect that the Open Market Investment Committee be authorized to replace the smount (\$25,000,000) of government securities which were held in the Special Investment Account and matured on March 15th, and that the Committee be authorized to purchase an additional \$60,000,000 of short-term government securities should a situation develop that would seem to justify such action.

The Board voted to authorize the Committee to replace the \$25,000,000 of government securities which matured from the Special Investment Account on March 15th, and will hold itself ready, upon advice from the Open Market Investment Committee, as a committee, or from the Mederal Reserve Eank of New York, if the Committee prefers to leave the matter in the hands of the Federal Reserve Bank, to not upon a recommendation for the purchase of an additional \$50,000,000 of short-term government securities, at any time such a course should appear to be desirable.

Very truly yours.

D. R. Crissinger. Governor.

Mr. J. H. Case, Acting Chairman, Open Market Investment Committee, c/o Federal Reserve Bank, New York, N. Y.

see ans 3/20/27

#2

133.

333-1-

March 8, 1927.

Doar Mr. Case:

March 5th expressing the view of the directors of your bank that, if the Open Market Investment Committee concurs, it would be well to let the March 15th maturities in the System's special investment account run off. The Board had this in mind when it cancelled the meeting of the Open Market Investment Committee called for March 7th, and in order that the record may be in proper form, I am writing to say that the Board approves of the Committee allowing those maturities to run off. At the meeting called for March 21st, it can be determined if and when it will be advisable to replace them.

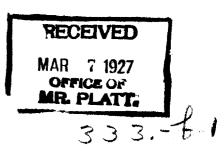
Very truly yours,

Ednund Platt,

Mr. J. H. Omse, Deputy Governor, Federal Reserve Bank, Hew York, N.Y. part.

FEDERAL RESERVE BANK

OF NEW YORK



March 5, 1927.

Dear Governor Platt:

We are in receipt of your letter of March 2 transmitting the resolution of your executive committee, asking us to get the views of our board concerning recommendation No. 1 of the Federal Advisory Council.

Your letter arrived while our directors' meeting was in session on Thursday and was read to the directors. There had not been, however, any time for us to prepare a review of the question for the directors and it was not possible to give the question the extended consideration which it warrants. Since the Open Market Investment Committee meeting has been postponed there will, we trust, be an opportunity to give it more adequate consideration.

As you know, we are facing a very complex situation at the tax day period. In addition to the 30 million dollars of maturities in the system account, there are 90 million dollars of maturities in foreign accounts, all of which must be taken care of in one way or another. Total maturities of Treasury notes, of well over 600 million, constitute the largest maturity for some time and the new Treasury issues will probably be more difficult to handle than for some time past.

In view of the complexity of the situation, we have not yet been able to make up a comprehensive balance sheet as to the probable effects on the money market of the operations on and following the fifteenth of the month, and before that is done it is difficult to lay out any satisfactory program for our operations.

AT EXPLOYING COMMITTEE

MEETING,

MAR 8 1927

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see aus 3/8/27

FEDERAL RESERVE BANK OF NEW YO

Hon. Edmund Platt, Federal Reserve Board. 3/5/27

In discussing the matter, however, in a tentative way, it was the view of our directors that, if the Open Market Investment Committee concurred, it would be well to let these securities mature on March 15, thus having the effect, for the time being at least, of removing the funds from the market for the period when money tends to be very easy for the few days following the fifteenth, and that the time and manner of replacing these maturities be determined upon later as it becomes possible to visualize the situation more clearly.

We hope to be able to make up a survey of the tax day operations before the end of next week, which we shall be glad to send you as soon as it is ready.

With regard to the policy relating to bankers acceptances, our view here has coincided with the position taken by the Federal Advisory Council, and it has been the feeling of our officers that our buying rates at which we stand ready to purchase bills should be maintained at the present levels, so that if and when market rates declined there would immediately be some pressure on the market to reduce the amount of its offerings to the Reserve Bank. This process will, we believe, tend to absorb any substantial amount of money in the market available under 4 per cent, and keep our discount rate effective. Our directors have concurred in this general program.

As you may have noticed, the New York City banks now owe us about \$80,000,000. There is no danger of sloppy money as long as that is true.

Very truly yours,

J. H. Case

Deputy Governor

Honorable Edmund Platt, Vice-Governor, Federal Reserve Board, Washington, D. C. #w

333 3. -f-1

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March 2, 1927.

Dear Mr. Case:

At a meeting of the Executive Committee of the Federal Reserve Board on yesterday, following the presentation of the recommendations of the recent meeting of the Federal Advisory Council, it was voted

"that Recommendation No. 1 be transmitted to the Board of Directors of the Federal Reserve Bank of New York for an expression of their views and any recommendations they may care to make, and that the directors be advised that the Board thinks it pertinent, in connection with consideration of the recommendation, to take cognizance of the gold imports since the first of the year and the prezent state of the acceptance market, and to consider whether there should be any change in the volume of investments in the System's special investment account, especially in view of the March 15th maturities from the account."

This resolution speaks for itself, but I might add that while the recommendation of the Council, if taken literally, would seem to refer only to "bills bought in the open market", the Council in discussion with the Board indicated that they had reference rather more to short term Government securities bought through the Open Market Committee than to bills, though some of them evidently had in mind the fact that bills purchased are maturing every day and that there might be some means of reducing the purchases each day.

As there is to be an Open Market Committee meeting on Monday next I presume this whole matter will be discussed at that time with the Board.

Yours very truly.

VICE GOVERNOR.

Mr. J. H. Case, Deputy Governor, Federal Reserve Bank, New York, New York.

P. S. - I am enclosing copy of the Council's recommendations to the Board.

See 2-18-27

see and 3/5/27

Office	Corresponder. e	FEDERAL RESERVE BOARD	3334-1 Date March 1, 1927.
ToMr.	Platt	Subject:	
From Mr.	Noell.		2—8495 G.P.O

At the meeting this morning, following presentation of the attached recommendations of the Federal Advisory Council, it was voted

"that Recommendation No. 1 be transmitted to the Board of Directors of the Federal Reserve Bank of New York for an expression of their views and any recommendations they may care to make, and that the directors be advised that the Board thinks it pertinent, in connection with consideration of the recommendation, to take cognizance of the gold imports since the first of the year and the present state of the acceptance market, and to consider whether there should be any change in the volume of investments in the System's special investment account, especially in view of the March 15th maturities from the account."

see letter 3/2/27 to case my

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO THE FEDERAL RESERVE BOARD

333,41

February 18, 1927.

TOPIC No. 1. What is the view of the Federal Advisory Council in respect to the future discount and open market policies of the Federal Reserve Banks?

RECOMMENDATION: The Federal Advisory Council does not believe that there is anything in the present business situation which would warrant any reduction of existing discount rates, or necessitating any change in present open market policy. The Council feels, however, that should interest rates continue to decline the Federal Reserve banks should reduce their holdings of bills bought in the open market.

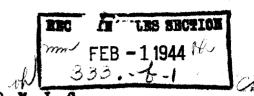
TOPIC No. 2. What aid should be rendered by a Federal Reserve Bank to a member bank in weakened condition. Should consideration be given in the first place to the depositors of the bank or to the ability of the bank to make further loans?

RECOMMENDATION: The Federal Advisory Council believes that no general rule can be laid down in regard to the assistance to be rendered by a Federal Reserve Bank to a member bank in weakened condition. The Council is of the opinion that satisfactory management is of first importance in determining policy and that the ultimate end to be achieved should be the conservation of the interest of depositors.

TOPIC No. 3. What action, if any, is advisable in view of the diminution of the number of par points?

RECOMMENDATION: While there has been some diminution in the number of par points largely due to failures and mergers, there is no AT EXECUSIVE COMMITTEE present situation to warrant any action at this time. MEETING.

MAR 1



Notes on Recommendations of the O. M. I. C.

12-16-26

- Note 1: 1/18/26 The Committee met and discussed advisability of disposing of \$50,000,000 short term securities acquired during December, 1925 for possible resale at this time. Agreed that while it was not desirable to sell these securities immediately(because of existing conditions and since these were \$65,000,000 of March maturities in the account) developments should be carefully watched. (pp.48-49)
- Note 2: 1/25/26 The Board, in meeting, authorized the sale of not more than \$50,000,000 of securities against definite orders. Action taken following presentation of letter from the Deputy Governor of the N. Y. Bank, advising that a moderate demand for short term securities was being felt resulting from a considerable easing of money conditions, and that N. Y. Bank officials felt that the market should be supplied from time to time with moderate amounts of these securities, not exceeding \$50,000,000 from the S. I. account, on receipt of definite orders. (pp.48-49)
- Note 3: 3/8/26 Chairman of O.M.I.C., present at Board meeting, stated that about \$66,000,000 of committee account holdings would retire Harch 15 and suggested that the maturing securities be replaced, if possible. The Board voted to interpose no objection to this action.

 (p. 50)
- Note 4: 3/23/26 The O.M.I.C. submitted its report to the Board, no immediate change except recommending that the issues which had matured on March 15 be gradually replaced as market conditions warranted, and that preparation be made "to" purchase some further amount of securities if and when there should be evidence of a recession in business activity, especially if there is no further liquidation" of reserve bank credit. (p. 55)

On 3/24/26 the joint meeting of the Board and Governors was advised that the Board had voted approval of the replacement of March 15th maturities but had taken no vote on the recommendation of further purchases, feeling that the Committee's report had not been specific on this point. The committee requested authority to bring up to \$90,000,000 additional securities raising total holdings to \$500,000,000 should developments warrant it before April 15, 1926. Approval of the Board was not granted. (p. 56)

On 3/25/26 the Board granted approval of an increase of the account to \$300,000,000; no purchase to be made under such authority after April 15. (p. 56)

- Hote 5: 6/15/26 After the maturity date the account fell off to \$239,000,000, and was increased to \$275,000,000 the securities being replaced with Board approval. (p. 56)
- Note 6: 6/21/26 The Committee and Board veted to maintain the S. I. account at about \$275,000,000; the Committee being granted authority to make temporary purchases or sales within a range of \$50,000,000 as deemed advisable; such purchases to be liquidated as soon as conditions warrant. (This authority was evidently not expected to cover more than the subsequent two weeks.) (pp. 57 and 59)
- Note 7: 8/13/26 Committee voted (1) to sell to, and on request of the freasury, \$25,000,000 Third Liberty Loan 46% Bonds (in addition to \$15,000,000 from the holdings of three F. R. banks) without replacement; (2) to approve the sale of \$2,337,000 to a foreign correspondent without replacement; (3) to sell \$5,000,000 during the current week, and \$15,000,000 during following weeks, to foreign correspondents. (p. 60)
- Note 8: 8/17/26 to 9/10/26 During this period the account decreased from \$275,000,000 to about \$210,000,000, the sale of \$40,000,000 of Liberties to the Treasury (Note 7) was made entirely from the account, the three F. R. banks having exchange Liberties from their holdings with the account for other securities. At this time authority to purchase amounts increasing the account up to \$325,000,000 was held by the Committee. (p. 63)
- Note 9: 9/10/26 The Committee voted to maintain the account for the time being at about \$200,000,000, with the understanding that the Committee could at discretion effect purchases or sales of not more than \$50,000,000. It was also understood by the Committee and the Board that the effect of gold imports in the near future should be offset by furnishing foreign correspondents securities from the S. I. account.

The Board, meeting on 9/10/26, voted to authorize the maintenance of the account at from \$200,000,000 to \$225,000,000. (p. 66)

Note 10: 11/7/26 The Committee suggested the desirability of purchasing up to \$100,000,000 during the following six weeks to be sold as changing credit conditions indicate. (p. 68)

The Board in meeting on 10/10/26 construed the Committee's suggestion as an expression of opinion, and so informed the Committee, adding "The Board assumes that should there be any change "* which would seem to warrant increasing the account (above the \$225,000,000 approved 9/10/26) temporarily the Committee will confer further with the Board".

Note: 1-1/18/26 - Videnment admobility of disposing of \$50,000.000.

Note 2 - 1/26/26 - The Board, in meeting, authorsed the sole of not more than \$50.000.000. of securities organist definite orders. Action token following pursuatation of latters from the Deputy governor of the Ny. book, adming that a moderate demand for what term recenties was fold a considerable securities from a considerable security of money condition, and that Ny. book officials for that the moderate amount of these sufficient for time to time with moderate amount of these securities, not exceeding \$50,000,000 from the \$1 account, weight of the orders. (pp 48-49)

Who 3-) clamon of omic, present at board meeting, stated Out about \$66,000,000. of committee world state Word 15 and suggested that the maturing securities he replaced if possible. The Board votal to interprese mo objection to the action. (p.50)

(normediate change except) 3/23/26 Note +. The OMIC aulited to report to the Board, recommending) that the same while End matured on March 15 be gradually reflered as malest condition woundted, and that proportion be made to purhose some fuller amount of of securities if and when there should be sindered of a recession in his was activity, especially of there is no further liquidation of reserve lok wit 1/255 He Bow I Tak to ff the fort On 3/24/26., at just meeting of the greenes coference attle Board. He governo stated that the Board on 3/23/26 has offered the report, the offered relating expressly to the replacement of Moule is motunties (the Chamme of the OMIC atotal that the sport God have proposed a week framos and that moralle the quarter day morane to in the moray morbest had have reduced to mormal)

Plm 3/24/26. The joint meeting of the Board and governor wasdoned that
the board protes of proved of the reference of March 15th
metalities but the normal on the fruther produces and, feeling
that the committee requested attends to language to \$90,000,000. additional
recognities adjusted attends to language to \$90,000,000. additional
securities about development wound it before Opiel 15, 1926.
Approval of the Board was not granted. (p 56)

A On 3/25/26 the Good granted approval of animene of the account to \$ 200,000,000.; no purchase to be made under such authority after april 15. (p.56)

fell off to \$239,000,000, and was unessed to \$275,000,000. The securities being replaced with Board offered, (p.56)

Note 6 - 6/21/26 - He Committee and Board voted to montain the S.J. account at about , 15,000,000; authority height a partidy to make temporary purchase or soles within a range of \$5,000,000 as deemed admirble; such purchase to her biquidated as soon as conditions would (This authority was evidently not expected to cover more than the subsequent two weeks).

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Federal Reserve Bank of St. Louis

Note 7 - 9/11/26. Committee voted to sall \$25.000,000 Hild

Fleety foundand (in addition to \$15,000,000. from the Rollings of thee

J.R. hooks) without replacement; (2) to pull \$5,000,000

to a freign consepondent without reflacement; (2) to sall \$5,000,000

during the current week, and \$15,000,000 during following weeks, to foury

consepondents. (p. 60)

Note 8. 8/11/26 to 9/10/26 - Almy this period the account derivated from 275,000,000. to 210,000,000, the sale of 40000,000. of deletes to the Treasury (Aste 7) was anate from the account, the withteamst three F.R. Lowles boring exchanged Silentes from their boldings for other authority to purchase amounts were said by the committee. (p.63)

Nte 9 - 9/10/26 - He Comittee voted to mentain the occant

for the time being at about \$200,000,000, with the

widestanding that the Committee could at description effect

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do for FRAJER

http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis The Board, meeting on 9/10/26 voted) authorize to mentance of the account at from \$200,000,000. to \$225,000.000. (p. 66).

Note 10-11-7-26- The Committee progressed the demolity of purchasing up to \$100,000,000. during the following to weeks, to be sold as changing credit conditions indicate. (p. 68)

Construed the Committees suggestion as an expression of opinion, and so informed the Committee, adding-" the board assume that about there has any change * * * which would show the "225,000,000.000 opinion of 110/10) can to warrant increasing the account Composition of the will confer for the will the Board."

.. *j.*.

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http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis

34

YEAR-END MOVEMENT OF FUNDS

333.-6

(Extract from Minutes of Board of Directors of the Federal Reserve Bank of New York, December 16, 1926)

On the subject of open market operations, Mr. Case referred to the report of the Open Market Investment Committee of November 3, 1926, suggesting that the purchase up to \$100,000,000 of securities may be desirable over the year-end, and the action of the Federal Reserve Board in noting the suggestion and requesting that the matter be referred to the Board again before definite action was taken in this direction with respect thereto. Dr. Burgess presented comparative figures on the situation in the money market over the year-end periods of 1924, 1925, and discussed the probable situation this year.

In the course of the discussion it developed that the increased derand for credit during the forthcoming year-end period would be due to the following four causes:

- (1) Income tax collections, which would create a Treasury balance in the reserve banks which might total \$100,000,000 by December 23.
- (2) An increase in the demands of the money market upon New York banks due to (a) withdrawals of out-of-town funds, amounting to perhaps \$150,000,000, (b) an increase in total requirements because of "window dressing" by corporations and others, unounting to a further \$150,000,000.
- (3) "Window dressing" on the part of the New York City banks which leads them to seek large average reserves the last week of the year, but to show no debt to the Reserve Bank on December 31.
- (4) Currency withdrawals, which in previous years have totaled as much as \$\\$50,000,000 in New York and \$\\$100,000,000 elsewhere in the week before Christmas.

Mr. Case reported with regard to (1) that it was the intention of the Treasury to invest its balance by purchases of securities up to \$60,000,000 to the extent that the securities are available and that, with regard to (2) and (3), as previously reported, he had discussed the problem with some of the large City banks and understood they would be prepared to furnish the funds required in the money market even though it were necessary for them to report a debt to

Year End Movement of Funds - 1925

(In millions of dollars)

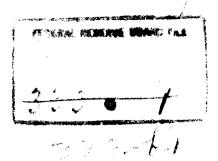
							Treasury	Po	sition of	New York City Banks			
(Currency in	Circulation		Stree	et Loans	Balances	Balance	Borrowing	at F.R.B.	Reserv	98 (23	Banka)	Call
Date	New York	u.s.	Gain or Loss	Own Account	Correspondents	of Correspondents	with F.R.Banks	Actual	Daily Change	Required		Aver.Week to date	
Dec. 17	+ 9)	+ 0.5	+17	-15	- 1	6.2	110	+39 +54	593 593	601 635	59 4 600	4.75 5.50
18 19	+10 + 5		-32.5 -19.4	+61 + 2	-31 + 1	- 2 -28	35.5 30.0	126	-38 +16	593 593	570 583	570 575	6.00
21 22	+ 4)+163 (Est.)	+ 7.1 + 6.7 + 4.4	- 9 +18 + 5	-10 - 2 +11	+ 5 + 7 -20	30.0 29.1	151 150	+ 9	593 593	633	589 596	6.00 6.00
23 24	+10 + 8)	-14.5	+13	- 8	+ 3	20.0	146	- 4	593	619	600	5.50
Total	+46,	,	-47.7	+107	-54	-36			+75				
Dec. 26 28 29 30	- 3 -16 -11 + 2	} -147 (Est.)	- 9.5 + 2.4 -11.3 + 1.3	+ 2 +19 +34 +74	- 2 -29 - 7 -34	+ 1 +12 -13 +38	21.5 17.9 19.3 15.1	130 162 171 219	-16 +32 + 9 +48	604 604 604 604	596 627 640 686	596 607 615 6 29	6.00 6.00 6.00
T/ \T	-28		-17.1	+129	-72	+3,8			+73				
Dec. 31	+ 6	J	-11.0	+68	-14	+39	16.4	161	-58	604	603	625	6.00
No. chan Dec.17-3			-64.8	+236	-126	+ 2			+148				
Net chan Dec.17-3			-75-8	+304	-140	+41			+ 90				

^{*}In addition to changes in discounts \$37,000,000 of securities were purchased in New York and \$13,000,000 elsewhere from December 17 to 31; also there were not bill purchases in New York of \$13,000,000 from December 17 to 24 and not sales of \$3,000,000 from December 26 to 31.

- 31	Currency in Circulatio												
			n Transfers Street Loans	Borrowing at F.R.B.		Reserves (22 I			Call				
e	New York	u. s.	Gain or Loss		Correspondents	of Correspondents	with F.R.Banks	Actual	Daily Change	Required	Actual	Aver.Week to date	Loan
Dec. 17 18 19 20 22 23 24	- 2 + 8 + 9 + 4 + 6 + 1 + 3	+120 (Est.)	-11 -14 -29 +10 - 3 -10 + 1	- 1 + 7 +33 + 7, -13 +12	- 3 - 6 - 27 - 1 - 9 - 4 + 29	+ 2 -27 - 4 -16 +17 - 6 + 5	8.5 22.3 41.2 55.1 63.5 62.3 58.1	13 12 10 16 78 70	+ 1 - 1 - 2 + 6 +62 +12 0	Not	compil	. d	3 2 2 2 2 2 2 2 2 2 2 2
Total	+29	•	-56	+31	-21	-29			+78				
Dec. 26 27 29 30	- 2 -13 - 8 - 6 - 2	-158 (Est.)	-22 - 6 +26 +10 + 1	+ 3 + 5 -11 -14 +57	+ 1 - 3 +12 +20 -18	- 3 -21 +19 +16 +12	57.3 58.4 62.3 54.0 51.2	84 84 80 56 32	- 6 9 - 4 -24 -24	614 614 614 614	629 655 653 653	629 638 642 645	4 s s s s s s s s s s s s s s s s s s s
Total	-31		+ 9	+40	+12	+23			-58				í
No Thange Dec. 17-31	- 2		-47	+71	- 9	- 6			+20				

[†]In addition to changes in discounts, there were net purchases of \$51,000,000 of bills from December 17 to 24, and net sales of \$4,000,000 from December 26 to 31.

+2



Hovember 10, 1926.

Dear Mr. Case:

lec 333.3/ 11-7-26

The Board has considered the report of the Open Market Investment Committee and notes particularly the Committee's suggestion that "it may be desirable to purchase up to 100 million of securities during the coming six weeks, to be sold again at such time as credit conditions appear to make that course desirable". The Board understands from the Committee's report that as the Committee views the situation at this time there is no need for action looking toward a change in the amount of the special investment account, as approved by the Board on September 10, 1926, and in this view the Board concurs. The Board, therefore, construes the Committee's suggestion as an expression of opinion on the part of the Committee that in the event of a future change in the present situation, it may be desirable to give quasideration to increasing the account temporarily.

The Board assumes that should there be any change in the present situation or any new developments which would seem to warrant increasing the account temporarily the Committee will confer further with the Board.

Wery truly yours,

Englant .

D. R. Crissinger, Governor.

Mr. J. H. Case, Acting Chairman, Open Market Investment Committee, Washington, D. C.

AT BOARD MEETING

™dV 1 0 1926

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

November 9, 1926

Dear Mr. Case

The Board at its meeting this atternoon considered the report of the Open Market Investment Committee to the Governors' Conference, now in session, and with respect to the Committee's suggestion that "it may be desirable to purchase up to 100 million of securities during the coming six weeks to be sold again at such time as credit conditions appear to make that course desirable", I have to advise that the Board sees no occasion at the present time for a change in the amount of the special investment account, as approved by the Board last September - 200 to 225 million. It is understood that the Committee is authorized to replace the December 15, 1926 maturities now held in the account.

The Board stands ready, of course, to give consideration at any time to any proposal affecting the account presented by the Committee in the light of any new conditions or developments which the Committee may bring to its attention.

Very truly yours,

Governor

Mr. J. H. Case, Acting Chairman, Open Market Investment Committee, Washington, D. C.

not sent - See Board meeting nov. 10, 1926

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FEDERAL RESERVE BANK

OF NEW YORK

333-61

September 13, 1926.

Dear Governor Crissinger:

I am in receipt of your letter of September 10, 1926 in reference to the action taken at the joint meeting of the Open Market Investment Committee and the Federal Reserve Board on that date, and note your statement that the Board voted to authorize the committee to maintain the System Special Investment Account at from \$200,000,000 to \$225,000,000.

meeting. I think you will recall that the resolution which was finally voted upon provided for the maintaining of the account, for the present, at \$200,000,000 or thereabouts, with the understanding that the committee might, in its discretion, increase or decrease the account by not more than \$50,000,000.

Very truly yours,

Honorable D. R. Grissinger, Governor, Federal Reserve Board, Washington, D. C.

Encl.

AT EXECUTIVE COMMITTEES
MEETING.

MEETING,

SEP 15 18

September 10, 1926.

Dear Mr. Case:

Receive Board The Federal Recerve Board this afternoon considered the report submitted by you as acting Chairman of the Open Market Investment Committee at the meeting of the Committee held with the Federal Reserve Board this morning. The Board voted to authorize the Open Market Investment Committee to

maintain the System Special Investment Account at from \$200,000,000 to \$225,000,000.

Very truly yours.

(Signed) D. R. Crissinger.

D. R. Crissinger. Governor.

Fr. J. H. Case, Deputy Governor, Federal Reserve Bank, New York, H. Y.

see ans 9/13/26



333.81

Upon motion, it was voted that the open market account should be maintained for the present at \$200,000,000, with the understanding that the committee could, in its discretion, increase or decrease the account by not more than \$50,000,000.

action taken by O.M. Committee 9/10/26

Having considered the report and the final recommendations of the Open Market Investment Committee, the Board is of the opinion that the present situation of the money market requires no interference by the Federal Reserve System either by purchases or sales in the open market. Should subsequent developments arise as the autumn advances that would make a departure from this position advisable, the Board will be ready to consider the matter again in the light of actual changes in the money or general economic situation.

The Board has, therefore, concluded:

- That there should be no change in the present volume of securities held in the System's Special Account. The 10 millions of September 15th maturities should, therefore, be replaced as the opportunity for purchase is favorable.
- 2. The 12 millions of September 15th mathrities in the account held by the rederal Reserve Bank of New York for foreign correspondents should also be replaced purchases for the System's Special Account.

While this would result in an enlargement in the amount of securities held in the System's account, it would/in effect alter the amount of money maintained in the open market by purchases of Treasury securities either for Federal Reserve or for foreign correspondent account; in brief, would leave the existing situation unmodified so far as the Federal Reserve's relation to it is concerned.

abmitted by Mr. Muder 9/10/26

W. Stark

21

FEDERAL RESERVE BANK

OF NEW YORK

August 19, 1926

Wederal Reserve Board,

Washington, D. C.

Attention: Honorable D. R. Crissinger

Dear Governor Crissinger:

Approval has been received from all Federal reserve banks to sell to the Treasury from System's holdings approximately \$40,000,000 Third Liberty Loan 4 1/4% bonds, without replacement. The Treasury has advised that \$10,000,000 of the bonds will be taken over on August 19 and the balance August 24.

At the request of Governor Seay of the Federal Reserve Bank of Richmond, I am sending you herewith a copy of his telegram dated August 18, 1926, setting forth his views with regard to the action taken at the Open Market Investment Committee meeting held August 17.

Very truly yours,

W. B. Matteson Secretary, Open Market Investment Committee

Encl. (1)

AT BOARD MEETING

AUG 2 3 926

ly.

TRIEGRAM

Private Wire - Incoming

51HDBO Righmond, Va. 10:12 a.m.

August 18, 1926

Matteson:

Treasury is welcome to our proportion of bonds if it wants them. We do not need the investment but I find it impossible to approve the policy of buying system bonds if it results in taking such a large amount of credit from the market in the face of rising interest rates at a time when financing crops and preparation for tax payments is going on. It can hardly fail to further increase interest rates at least temporarily, and coming on top of increase in the New York bank rate cast a chill over business which has managed to survive splendidly notwithstanding the work of the oracles and sign readers who predicted decline and depression. Business does not need a chill but encouragement when commodity prices and construction work are showing heartancy and declining tendencies. Furthermore rising interest rates should have an unfavorable influence on Treasury September financing. Please express this opinion to the Board and other Federal reserve banks.

Sear 13:45 a.m

(FIRMATION

R"SERVE BANK OF RI FEDER! **DN**ME

OUTGOING	PRIVATE	WIRE	TELEGRAM
001001110	<u> </u>	7 7 11 2	

SENDER	DEPARTMENT	TIME WRITTEN	CHARGE SYMB	77	eoen el
BENDER	DEFARIMENT	TIME WRITER	CHARGE STMB		110 1 9 3020
GJS:N	Officers	9:45 A. M.	0C-1))	DEFICE OF

MATTESON, SECRETARY, NEW YORK

DATE August 18, 1926 L 9 1976

TREASURY IS WELCOME TO OUR PROPORTION OF BONDS IF IT WANTS THEM. WE DO NOT NEED THE INVESTMENT BUT I FIND IT IMPOSSIBLE TO APPROVE THE POLICY OF BUYING SYSTEM BONDS IF IT RESULTS IN TAKING SUCH A LARGE AMOUNT OF CREDIT FROM THE MARKET IN THE FACE OF RISING INTEREST RATES AT A TIME WHEN FINANCING CROPS AND PREPARATION FOR TAX PAYMENTS IS GOING ON. IT CAN HARDLY FAIL TO FURTHER INCREASE INTEREST RATES AT LEAST TEMPORARILY, AND COMING ON TOP OF INCREASE IN THE NEW YORK BANK BATE CAST A CHILL OVER BUSINESS WHICH HAS MANAGED TO SURVIVE SPLENDIDLY NOTWITH-STANDING THE WORK OF THE ORACIES AND SIGN READERS WHO PREDICTED DECLINE AND DEPRESSION. BUSINESS DOES NOT NEED A CHILL BUT ENCOURAGEMENT WHEN COMMODITY PRICES AND CONSTRUCTION WORK ARE SHOWING HESITANCY AND DECLINING TENDENCIES. RISING INTEREST RATES SHOULD HAVE AN UNFAVORABLE INFLUENCE ON TREASURY SEPTEMBER FINANCING. PLEASE EXPRESS THIS OPINION TO THE BOARD AND OTHER F. R. BANKS.

according to Pusher Index Commenty prices Now at Conest ance 1924

CONFIRMATION

0 P Y

5 3 3,-6-1

June 9. 1926.

Dear Mr. Case:

In the Governor's absence I discussed with the Board this morning the question of holding an Open Market Committee meeting on June 21st with particular reference to the question whether it should be held in Washington or New York. I stated that as I understood it there was no proposition for a change in the general policy, i.e. in addition to or subtraction from the System's open market fund, but that temporary purchases on account of the conditions arising from the Treasury's umusual action and from the window dressing at the end of the month might be necessary. Several members of the Board expressed considerable interest in the situation due to the fact that the Treasury is not to issue any new certificates but is to accumulate funds and pay off the maturing obligations, and the sentiment seemed to be very strongly in favor of holding the meeting in Washington on the date mentioned.

Yours very truly,

Edmond Platt Vice Governor.

Mr. J. H. Case, Deputy Governor, Federal Reserve Bank, New York, N. Y.

orig. filed 333, -t-2

#2

June 2, 1926.

333-1

Dear Mr. Cases

Receipt is schmowledged of your letter of May 28th, and you are advised that the Federal Reserve Board today approved the replacement by the purchase of other short term government securities, of the United States Tressury certificates of indebtedness, maturing June 15, 1926, held in the System Special Investment Assount, totaling \$56,525,500.

Very traly yours,

Rimmid Platt, Vice-Governor.

Mr. J. H. Gase, Deputy Governor, Federal Reserve Benk, New York, N. Y.

an the Unclassified Appliasement Holdings of the National Archives

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333-b-1

November 10, 1926.

Dear Mr. Case:

lee 333.31 11-7-26

The Board has considered the report of the Open Market Investment Committee and notes particularly the Committee's suggestion that "it may be desirable to purchase up to 100 million of securities during the coming six weeks, to be sold again at such time as credit conditions appear to make that course desirable". The Board understands from the Committee's report that as the Committee views the situation at this time there is no need for action looking toward a change in the amount of the special investment account, as approved by the Board on September 10, 1926, and in this view the Board soncurs. The Board, therefore, construes the Committee's suggestion as an expression of opinion on the part of the Committee that in the event of a future change in the present situation, it may be desirable to give consideration to increasing the account temporarily.

The Board assumes that should there be any change in the present situation or any new developments which would seem to warrant increasing the account temporarily the Committee will confer further with the Board.

1

Very truly yours,

End dust

D. R. Crissinger, Governor.

Mr. J. H. Case, Acting Chairman, Open Market Investment Committee, Washington, D. C.

AT BOAMS MEETING

May 10 1926

THE THE

FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

November 9, 1926

Dear Mr. Case

The Board at its meeting this a ternoon considered the report of the Open Market Investment Committee to the Governors' Conference, now in session, and with respect to the Committee's suggestion that "it may be desirable to purchase up to 100 million of securities during the coming six weeks to be sold again at such time as credit conditions appear to make that course desirable", I have to advise that the Board sees no occasion at the present time for a change in the amount of the special investment account, as approved by the Board last September - 200 to 225 million. It is understood that the Committee is authorized to replace the December 15, 1926 maturities now held in the account.

The Board stands ready, of course, to give consideration at any time to any proposal affecting the account presented by the Committee in the light of any new conditions or developments which the Committee may bring to its attention.

Very truly yours,

Governor

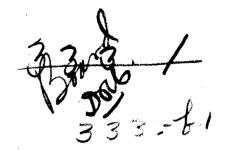
Mr. J. H. Case, Acting Chairman, Open Market Investment Committee, Washington, D. C.

SERVEY SUNT - See Board meeting, nov. 10, 1926 isfed.org/

http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis monthing

FEDERAL RESERVE BANK

OF NEW YORK



September 13, 1926.

Dear Governor Crissinger:

I am in receipt of your letter of September 10, 1926 in reference to the action taken at the joint meeting of the Open Market Investment Committee and the Federal Reserve Board on that date, and note your statement that the Board voted to authorize the committee to maintain the System Special Investment Account at from \$200,000,000 to \$225,000,000.

meeting. I think you will recall that the resolution which was finally voted upon provided for the maintaining of the account, for the present, at \$200,000,000 or thereabouts, with the understanding that the committee might, in its discretion, increase or decrease the account by not more than \$50,000,000.

Very truly yours,

Honorable D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

Encl.

Lee Munitize
AT EXECUTIVE COMMITTEE
MEETING,

Deputy Governor

SEP 15

Mark Markey 1921

September 10, 1926. 353-6-1

Reserve Board *** The Federal Reserve Board this afternoon considered the report submitted by you as Acting Chairman of the Open Market Investment Committee at the meeting of the Committee held with the Federal Reserve Board this morning. The Board voted to authorize the Open Market Investment Committee to maintain the System Special Investment Account at from \$200,000,000 to \$225,000,000.

Very truly yours.

(Signed) D. R. Crissinger.

D. R. Crissinger. Governor.

Mr. J. H. Case, Deputy Covernor, Federal Recerve Busk, New York, N. Y.

see ans 9/13/26

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333.81

Upon motion, it was voted that the open market account should be maintained for the present at \$200,000,000, with the understanding that the committee could, in its discretion, increase or decrease the account by not more than \$50,000,000.

action taken by O.M. Committee 9/10/26

Having considered the report and the final recommendations of the Open Market Investment Committee, the Board is of the opinion that the present situation of the money market requires no interference by the Federal Reserve System either by purchases or sales in the open market. Should subsequent developments arise as the autumn advances that would make a departure from this position advisable, the Board will be ready to consider the matter again in the light of actual changes in the money or general economic situation.

The Board has, therefore, concluded:

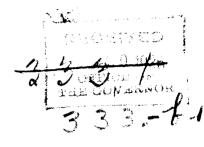
- 1. That there should be no change in the present volume of securities held in the System's Special Account. The 10 millions of September 15th maturities should, therefore, be replaced as the opportunity for purchase is favorable.
- 2. The 12 millions of September 15th mathrities in the account held by the Jederal Reserve Bank of New York foreign correspondents should also be replaced to the System's Special Account.

While this would result in an enlargement in the amount of securities held in the System's account, it would/in effect alter the amount of money maintained in the open market by purchases of Treasury securities either for Federal Reserve or for foreign correspondent account; in brief, would leave the existing situation unmodified so far as the Federal Reserve's relation to it is concerned.

bruittes by Mr. Muder 9/10/26

FEDERAL RESERVE BANK

OF NEW YORK



August 19, 1926

Federal Reserve Board,

Washington, D. C.

Attention: Honorable D. R. Crissinger

Dear Governor Crissinger:

Approval has been received from all Federal reserve banks to sell to the Treasury from System's holdings approximately \$40,000,000 Third Liberty Loan 4 1/4% bonds, without replacement. The Treasury has advised that \$10,000,000 of the bonds will be taken over on August 19 and the balance August 24.

At the request of Governor Seay of the Federal Reserve Bank of Richmond, I am sending you herewith a copy of his telegram dated August 18, 1926, setting forth his views with regard to the action taken at the Open Market Investment Committee meeting held August 17.

Very_truly yours,

Secretary, Open Market

Investment Committee

Encl. (1)

AT BOARD MINITING

AUG 23 926

TRIEGRAM

Private Wire - Incoming

SINDRO Righmond, Va. 10:12 a.m.

August 18, 1926

Matteson:

Treasury is welcome to our proportion of bonds if it wants them. We do not need the investment but I find it impossible to approve the policy of buying system bonds if it results in taking such a large amount of credit from the market in the face of rising interest rates at a time when financing crops and preparation for tax payments is going on. It can hardly fail to further increase Interest rates at least temporarily, and coming on top of increase in the New York bank rate cast a chill over business which has managed to survive splendidly notwithstanding the work of the cracles and sign readers who predicted decline and depression. Business does not need a chill but encouragement when commodity prices and construction work are showing heaitancy and declining tendencies. Furthermore rising interest rates should have an unfavorable influence on Treasury September financing. Please express this opinion to the Board and other Federal reserve banks.

Sear 11:45 a.m

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FEDER! R"SERVE BANK OF RI

OUTGOING	PRIVATE	WIRE	TELEGRAM

SENDER	DEPARTMENT	TIME WRITTEN	CHARGE SYMB	PL TO THE PLANT OF
GJS:N	Officers	9:45 A. M.	0C-1	DEFICE OF

TO MATTESON, SECRETARY, NEW YORK

DATE August 18, 1926

TREASURY IS WELCOME TO OUR PROPORTION OF BONDS IF IT WANTS THEM. WE DO NOT NEED

THE INVESTMENT BUT I FIND IT IMPOSSIBLE TO APPROVE THE POLICY OF BUYING SYSTEM BONDS IF IT RESULTS IN TAKING SUCH A LARGE AMOUNT OF CREDIT FROM THE MARKET IN THE FACE OF RISING INTEREST RATES AT A TIME WHEN FINANCING CROPS AND PREPARATION FOR TAX PAYMENTS IS GOING ON. IT CAN HARDLY FAIL TO FURTHER INCREASE INTEREST RATES AT LEAST TEMPORARILY, AND COMING ON TOP OF INCREASE IN THE NEW YORK BANK RATE CAST A CHILL OVER BUSINESS WHICH HAS MANAGED TO SURVIVE SPLENDIDLY NOTWITH-STANDING THE WORK OF THE ORACIES AND SIGN READERS WHO PREDICTED DECLINE AND DEPRESSION. BUSINESS DOES NOT NEED A CHILL BUT ENCOURAGEMENT WHEN COMMODITY PRICES

AND CONSTRUCTION WORK ARE SHOWING HESITANCY AND DECLINING TENDENCIES. RISING INTEREST RATES SHOULD HAVE AN UNFAVORABLE INFLUENCE ON TREASURY SEPTEMBER

FINANCING. PLEASE EXPRESS THIS OPINION TO THE BOARD AND OTHER F. R. BANKS.

according to Problem Index Commenday prices how at lowest ance 1924

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CONFIRMATION

333,-6-1

June 9, 1926.

Dear Mr. Case:

In the Governor's absence I discussed with the Board this morning the question of holding an Open Market Committee meeting on June 21st with particular reference to the question whether it should be held in Washington or New York. I stated that as I understood it there was no proposition for a change in the general policy, i.e. in addition to or subtraction from the System's open market fund, but that temporary purchases on account of the conditions arising from the Treasury's unusual action and from the window dressing at the end of the month might be necessary. Several members of the Board expressed considerable interest in the situation due to the fact that the Treasury is not to issue any new certificates but is to accumulate funds and pay off the maturing obligations, and the sentiment seemed to be very strongly in favor of holding the meeting in Washington on the date mentioned.

Iours very truly,

Edmond Platt Vice Governor.

Mr. J. H. Case, Deputy Governor, Federal Reserve Bank, New York, N. Y.

orig. filed 333, -f-2

Jame 8, 1926. 333.-41

Dear Mr. Came:

Receipt is acknowledged of your letter of May 28th, and you are advised that the Federal Reserve Board today approved the replacement by the purchase of other short term government securities, of the United States Treasury certificates of indebtedness, maturing June 15, 1926, held in the System Special Investment Assount, totaling 336.525.500.

Very truly yours.

Edmund Platt. Vice-Governor.

Mr. J. H. Case. Deputy Governor, Federal Reserve Benk, New York, R. Y.

#8

333-61

June 5. 1926.

Dear Mr. Martin:

In reviewing the open market operations of the Federal reserve banks for the month of May, we note that between May 8 and 20 your bank purchased a total of \$3,000,000 of Third Liberty Bonds from C. F. Childs and Company and the Bankers Trust Company. You will recall that the question of buying United States bonds was disonesed quite thoroughly at the April 1925 Governors' conference, and it seemed to be the concensus of opinion at that time that the Federal reserve banks may buy United States securities from their own member banks without going through the Open Market Investment Committee, but that all ether purchases of Government securities should be made through the Committee. It has also been the general understanding recently that all open market investment operations are to be carried on in accordance with the open market pelicy of the Board as outlined in its 1925 Annual Report, and not for the purpose of building up the earning position of the reserve banks.

in view of the above, we should appreciate advice regarding the factors which your bank took into consideration in purchasing the \$3,000,000 of Liberty bonds and whether or not it is your intention to hold them until maturity or to sell them in the near future either locally or in the central money market.

Yery truly yours,

Mining Platt,

Mr. W. McC. Martin. Federal Reserve Agent, St. Louis, Mo.

for her

-ae 3, 1926

Governor Crissinger Mr. Goldenweiser Recent open-market operations

On March 22 the Open-Market Investment Committee requested authority, in addition to replacing \$66,000,000 of maturing
United States securities, to make further purchases not to exceed \$90,000,000 during the last week of March and the first two
weeks of April. This amount would have carried the total account
to \$300,000,000. At the time the recommendation was made and
approved by the Board money rates in New York were fairly high,
the renewal rate on call loans being around 5 per cent, and discounts at the reserve bank were also relatively large, averaging
around \$150,000,000. It was, furthermore, the opinion of the
Open-Market Committee that business was slowing down and that it
would be desirable to bring about somewhat greater ease in the
money market in order to encourage business.

Purchases, over and above-replacements, began with the approval of the Federal Reserve Board on March 29 and continued until April 14, the total amount of securities purchased during the period being \$65,000,000. During that time the call loan rate declined to about 4 1/4 per cent and soon after fell further to 3 1/2 per cent. On April 23 the Federal Reserve Bank of New York reduced its fate from 4 to 3 1/2 per cent; discounts of the New York bank want down to a low point of \$61,000,000 on April 21, but increased again and were at the end of April about as large as at the end of March. This was due in part to the fact that during the period New York

lost funds to the interior through the withdrawal of bankers' balances and otherwise.

The attached table shows daily purchases of United States securities by the Investment Committee between March 24 and April 25, total holdings in the system investment account, the volume of discounts at the Federal Recerve Bank of New York, the renewal call rate, and the discount rate.

OPEN-MARKET OPERATIONS: MARCH 24 to APRIL 28, 1926

(Amounts in thousands of dollars)					
Date	Purchases U.S. sec.	of !Total hold-! for:ings in in-: o't:vest. acc't:	of F. R.B.:	Renewal: call: rate:	Discount rate
					:
warch 24	6,000	193,000	148,000	4 324	4
25	6,000	199,000	149,000	T)	4
25	11.000	210,000	129,000	5 5	4
27	,	210,000	141,000	2	*
27 29 30 31	6,000	210,000 216,000	141,000	4 3/4	h
30	1,000	217,000	161,000	4 3/4 5 5	4 4
51	7,000	224,000	150,000	2	in the second
-				2	*
April 1	3,000	227,000	133,000	E	
2		227,000	101,000	5	4
3	,	227,000	146,000	4 1/8	
5	3,000	230,000	158,000	4 1/2	4
6		230,000	162,000		. 4
April 1 2 3 6 7 8 9		230.0 00	155.000	4 1/# 4 4	4 4 4
Ė	4,000	235,000 243,000 243,000	155,000 175,000	L L	4
Ğ	8,000	243,000	149,000	4	4
1Ć		243,000	118,000	*	4
18	7,000	250,000	139,000	h	_
13	11,000	261,000	156,000	Ť	4
17	3,000	264,000	189,000	2 1/2	4
15	11,000	275,000	153,000	5 4 1/4	4
15		275,000	86,000		4
17		275,000	95,000	4 1/4	4
ĩġ	ì`	275,000	96,000	h w fin	
20		275,000	86,000	4 1/4	1
21		275,000	61,000	4	4
22		275,000	62,000	4	4
27		275,000	117,000	3 1/2 3 1/2	# #
27	(275,000	131,000	3 1/2	3 1/2
26		275,000	142,000		, 4, 4
27	,	275,000 275,000	138,000	3 1/2	3 1/2
27 28	1	275 ,0 00	141,000	3 1/2 3 1/2 3 1/2	3 1/2 3 1/2 3 1/2
€0	•	E/3,000	ATA,000	3 1/2	1 1/2

Form 148

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE
WASHINGTON

2-3454 GPO 33341

Jame 5, 1926,

Talley - Dallas

Your telegram May 28th. Board interposes no objection to your proposal to exchange Government securities as outlined therein.

PLANT

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Form 148

TELEGRAM

FEDERAL RESERVE BOARD

LEASED WIRE SERVICE WASHINGTON

333,-41

June 1, 1926

Your telegram re exchange of Governments. Matter will be considered next meeting Board. Will wire you notion taken by Board.

Eddy

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TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

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Dallas 1254pm may 28 /9 2 RECEIVED AT WASHINGTON, D. C.

Board. Washn

172

about \$3.750.000 which are now yielding approximately 3.71 on average purchase price and buying like amount treasury 3 3-4 % bonds to replace them . Our inclination to make exchange suggested above is predicated on thought that Govt credit basis might go to lower level within fairly reasonable time. We feel also that such exchange now would improve our position somewhat in that we would have option of holding or selling treasury bonds when third liberties mature instead of being compelled to redeem thirds at that time and probably reinvest proceeds in other Government issues on lower yield basis than treasury bonds would yield if purchased at present time. Such exchange would not increase our independent holdings of Governments and that Treasury bonds we contemplate

"ave been giving consideration to selling third liberties amounting to

purchasing would be only long term bonds we would have . our other independent holdings of Governments consist of about \$500,000 first four quarter liberties. about \$2,800,000 second four quarter liberties and \$1,000,000 fourth four quarter liberties all of which have fairly early optional maturities. Matteson of Newfork bank has advised us can sell direct to Treasury our holdings of third liberties at (101 7-32 net) without commission and if board does not object to

suggested exchange we will dispose of third liberties to Treasury at price quoted and place order for like amount of Treasury bonds to be completed as soon as practicable. Will appreciate your views in matter by wire as early as possible Talley

223pm

OF LOR OF HE GOVERNOR

ROARD MEETING JUN 2 - 1926

see ans 6/3/26 see ans 6/1/26

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FEDERAL RESERVE BANK

OF NEW YORK

May 28, 1926.

Federal Reserve Board,

Washington, D. C.

Attention of: Governor Crissinger

Dear Governor Crissinger:

The matter of the replacement of United States Treasury certificates of indebtedness, maturing June 15, 1926, held in the System Special Investment Account, totaling \$36,525,500, has been taken up with the members of the Open Market Investment Committee, and they have agreed that these certificates should be replaced by the purchase of other short-term Government securities. This, of course, will not change the face amount of Government securities held in the Special Account and is in line with the usual procedure.

Very truly yours,

J. H. CASE.

Acting Chairman, Open Market

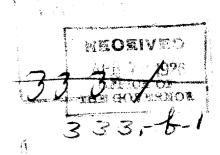
Investment Committee.

AT BOARD MINISTING
IUN 2 - 1926

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FEDERAL RESERVE BANK

OF NEW YORK



April 6, 1926.

Dear Governor Crissinger:

Your favor of April 2, advising of the action taken at the Board's meeting on March 8, and the further vote on March 25, in regard to Open Market Purchases, has just been received.

Of courseyou understand that in both cases it was necessary for the committee to act upon verbal advices of the action taken by the Board.

This has proved a source of embarrassment heretofore, and the last misunderstanding with regard to the nature of the action taken by the Board on March 8 in respect of the Belgian Credit, might have resulted in a very difficult situation.

Cannot some method be devised by which Board action, especially in matters relating to transactions of the Open Market Committee, can be immediately transmitted in writing, or at least by telegraph?

Very truly yours.

the throng

Honorable D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. 9.

333.41

April 2, 1926

Dear Governor Strong:

I have just discovered that you were not given written advice of the action taken by the Board on March Sth, in voting to interpose no objection to the Open Market Investment Committee replacing so far as possible the Government securities held in the System account which matured on March 15th. You also have not previously received written advice of the Board's action at its meeting on March 25th, in approving the recommendation of the Open Market Investment Committee and Governors' Conference that;

"If developments in the money market indicate any need for doing so, the amount of securities in the System account be increased to \$500,000,000, but no purchases shall be made after April 15, 1926 without further consideration."

I am writing you this letter for the purpose of your records as Chairman of the Open Market Investment Committee.

Yery truly yours,

Governor

Mr. Benj. Strong, Governor, Federal Reserve Bank, New York, H. Y.

see aus 4/6/26

Photography

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FEDERAL RESERVE BANK

OF NEW YORK

333.61

April 1, 1926.

My dear Governor Crissinger:

Your favor of March 30th on the subject of the place of meeting of the Open Market Investment Committee is just received.

I am transmitting a copy of it to the members of the Committee.

Possibly we can discuss this matter further when I next have the pleasure of seeing you.

Very truly yours,

BENJ. STRONG Governor.

Honorable D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

Milanto

333/

March 30, 1926.

My dear Governor Strong:

I want to again call your attention to the action of the Board yesterday in the matter of the meeting place of the Open Market Investment Committee.

It seems that the Board is under the impression that important argument and much information is brought out at these meetings which they are in a sense deprived of even though the action of the Committee is reported to the Board, as has always been done. You will remember the former letter in which the very resolution was given stating the action of the Board. The following is a re-draft of the resolution, which the Board passed, and is self-explanatory:

"WHEREAS, on March 9, 1926, the Federal Reserve Board passed the following resolution:

'That Washington be designated as the future regular meeting place of the Open Market Investment Committee, except when the Committee is authorised by the Board to meet elsewhere.'

NOW, THEREFORE, the Governor is directed to advise, from time to time, after consultation with the Chairman of said Committee, when in his opinion it is desirable from the nature of the business to be transacted that meetings of the Committee be held at places other than Washington."

I should be pleased to have your views and the views of the Open Market Investment Committee on the Board's action.

Sincerely yours,

(Mgped) D. R. Crissinger.

D. R. Crissinger, Governor.

Mr. Benj. Strong, Governor, Federal Reserve Bunk, New York, M. Y.

pel aus 4/1/26

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Office Correspondence

Governor Criss

FEDERAL RESERVE

porrae .rce		Date March 30, 1926.
inger	Subject:	33361

Outriod

At the meeting of the Board yesterday, the following resolution was unanimously adopted:

"WHEREAS, on March 9, 1926, the Federal Reserve Board passed the following resolution:

'That Washington be designated as the future regular meeting place of the Open Market Investment Committee, except when the Committee is authorized by the Board to meet elsewhere.'

Now, therefore, the Governor is directed to advise, from time to time, after consultation with the Chairman of said Committee, when in his opinion it is desirable from the nature of the business to be transacted that meetings of the Committee be held at places other than Washington."

see letter 3/30/26 copy filed 333,3/ 333,-6~ Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Subject:

Date 11-10h 83. 1986

From Mr. McClelland.

To Mr. Hamlin.

There is quoted below the resolution adopted by the Board at the meeting on Harah 9th, which it was understood telay you would revise for consideration at a later meeting.

"That Washington be designated as the future regular meeting place of the Open Market Investment Committee, except when the Committee is sutherized by the Board to meet elsewhere."

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REPORT OF THE OPEN MARKET INVESTMENT COMMITTEE TO THE GOVERNORS' CONFERENCE, March 22, 1926.

Barded

333-6-

Since the last Governors' Conference the changes in the special investment account have consisted of (a) temporary readjustments to offset the effects on the money market of government financ- x 456 ing at tax periods, (b) purchases and sales to offset seasonal changes over the turn of the year, and (c) a reduction in total caused by the repayment of March 15 maturities, which have not yet been wholly replaced.

At the December 15 tax period temporary sales of 30 million dollars were made to New York City banks, and at the March tax period temporary sales of \$38,000,000 were made, of which \$35,000,000 were made in New York and \$3,000,000 in Chicago. The result of these sales was to exert a considerable stabilizing influence on the market at these periods.

X

During the latter part of December the committee purchased 50 million of short-term government securities to decrease the seasonal strain in the market, and these securities were resold in the latter part of January and early in February.

On March 15 there matured 65 million dollars of securities held in the special account, and in addition \$32,500,000 held for foreign account. These amounts have been fully replaced for the foreign accounts but only partially replaced as yet by the purchase of \$34,355,600 of securities for the System account. This leaves a balance of \$31,411,100 to be purchased for the special account in order to re-

Copy filed 333, 31 333, - 6 >

store it to 210 million dollars; the \$38,160,000 of Treasury notes which matured December 15, 1925, were replaced by purchases of other maturities, thus causing no change in the account.

In the past few weeks, there has been some change in credit conditions, but more particularly in business and financial psychology. The stock market boom has lost its impetus and the amount of funds employed by the market has diminished by about 300 million dollars from the date when public reports were commenced. Real estate speculation has calmed down somewhat. There are also reports of business hesitation, evidence of which may be found in a weakness in commodity prices, a decline of unfilled orders of the Steel Corporation, some recession in retail trade and some decrease in the amount of building permits taken out, although the actual volume of current business transactions continues very large. But some business hesitation appears to be a not unusual accompaniment of a rather sharp arrest of stock speculation following a long extended period of activity.

Thus far it would appear that the diminution of speculative activity is wholesome. The movements which have taken place have been orderly and there has been no indication so far of untoward consequences. It is not yet clear how far liquidation will be continued and it is, of course, still possible that there might be a revival of speculation with the dangers it involves. It appears more probable, however, that the peak of this speculative and business expansion has been passed. It therefore seems appropriate in view of the above to discuss at this time what our open market policy should be in the

event a business recession calls for a revision of policy before we meet in another governors! conference.



Experience in the past has indicated that member banks when in debt at the Federal Reserve Bank of New York, and in less degree at other money centers, constantly endeavor to free themselves from that indebtedness, and as a consequence such pressure as arises is in the direction of curtailing loans. This is now accentuated over a year ago as the discount rate at New York is a full 1% higher, and 1/2% higher at four other banks. As the accompanying table of the earning assets of the System shows, the amount of credit furnished by Reserve Banks on member banks direct borrowing, just prior to the March 15th operations, was larger this year than on any corresponding date since

EARNING ASSETS - FEDERAL RESERVE SYSTEM
(In millions of dollars)

	1922 Mar.	1923 8- <u>Mar.7</u> -	1924 <u>Mar.12</u> -	1925 <u>Mar.ll</u> -	1926 <u>Mar.10</u>
Discounts New York (City) Chicago (City) Other	14 3 614	149 22 400	53 7 423	149 2 259	103 17 382
Total	631	571	483	410	502
Bankers Acceptances	102	219	243	301	285
U.S. Securities-Committee	e	_	140	275	245
U.S. Securities-Other	444	345	72	113	115
Other Earnings Assets	ga-s			15	12
Total	1,177	1,135	938	1,114	1,159

The total amount of borrowing undoubtedly exerts some pressure upon the business community. Should we go into a business recession while the member banks were continuing to borrow directly 500 or 600 million dollars, (if bills are included nearly 800 million dollars,) we should consider taking steps to relieve some of the pressure which this borrowing induces by purchasing government securities and thus enabling member banks to reduce their indebtedness.

It is not possible to predict to what extent member banks will continue their borrowing on the present scale in the event of a business recession. The release of funds now employed in the security markets, a decrease in currency requirements, and some decrease in bank loans for business undertakings, would likely be partly offset by increased requirements for funds to carry accumulating inventories. Perhaps the major determining factor will be the movement of gold. During the first half of March we received 30 million dollars of gold from Canada and this movement resulted in easy money rates in New York in the second week of the month. It seems possible that this gold movement may be continued somewhat further, and, if so, it would correspondingly liquidate the borrowings of member banks in New York. The usual movement of gold, however, if seasonal causes operate, would lead us to anticipate gold exports rather than imports during the summer months, with perhaps further imports in the fall. With these conflicting tendencies future changes in our loan account are especially significant as a guide and we should see that the total does not become or continue too burdensome.



Future Policy.

As a guide to the timing and extent of any purchases which might appear desirable, one of our best guides will be the amount of borrowing by member banks in principal centers, and particularly in New York and Chicago. Our experience has shown that when New York City banks are borrowing in the neighborhood of 100 million dollars (1) or more, there is then some real pressure for reducing loans, and money rates tend to be markedly higher than the discount rate. On the other hand, when borrowings of these banks are negligible, as in 1924, the money situation tends to be less elastic and if gold imports take place, there is liable to be some credit inflation, with money rates dropping below our discount rate. When member banks are owing us about 50 million dollars or less the situation appears to be comfortable, with no marked pressure for liquidation and with the requisite elasticity. Under these circumstances no single bank tends to be in debt for any extended period and borrowings are passed around among the different banks. Call and time money rates tend to be but slightly above our discount rate. With this situation existing in New York, there is less tendency for funds to be attracted to New York (particularly since commercial rates at such times are apt to be higher than stock exchange rates for call money) and the situation has a considerable degree of stability.

The accompanying chart shows the amount of borrowing of New York City banks by weeks during the past four years. It shows borrowings to be large during 1923, when, as we all know, there was some

pressure for liquidation. Allowing for the seasonal increase and decrease in December 1923 and January 1924 borrowings were very small during 1924 and we recall that during the balance of that year while there was considerable instability in money conditions, it was accompanied by a gradual revival of business over 1923. In 1925 borrowings were sufficiently high during parts of the year to place some pressure on the New York City banks. It was in this stage that rate advances were made. In the event of business liquidation now appearing it would seem advisable to keep the New York City banks out of debt beyond something in the neighborhood of 50 million dollars. It would probably be well if some similar rule could be applied to the Chicago banks, although the amount would, of course, be smaller and the difficulties greater because of the influence of the New York money market.

In general it would appear that we should not increase or diminish the special account immediately beyond gradually replacing the issues which matured on March 15 as market conditions warrant, but that we should prepare ourselves now for the prompt purchase of some further amount of securities if and when there should be further evidence of a recession in business activity, especially if there is no further liquidation in the amount of Federal Reserve credit employed.

March 19, 1926.

STATEMENT SHOWING PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM SPECIAL INVESTMENT ACCOUNT AND CLASSIFICATION OF ISSUES HELD IN THE ACCOUNT BY MATURITIES

Exhibit A

	Holdings	Holding Ratio	Holdings by Maturities
Boston.	\$ 1,688,000	1.0%	June 15, 1926 3% C/I \$ 1,800,000
New York	43,733,900	24.5%	June 15, 1926 3 1/4% c/T 28,900,000
Philadelphia	1,331,000	.7%	September 15, 1926 4 1/4% T/N 17,901,000
Cleveland	9,908,500	5.5%	December 15, 1926 3 3/4% C/I 47, 260,000
Richmond	3,488,500	1.9%	March 15, 1927 4 3/4% T/N 44,856,600 /2
Atlanta	10,289,000	5.8%	December 15, 1927 4 1/2% T/N 35,371,300
Chicago	18,718,000	10.5%	September 15, 1928 4 1/4% 3rd L/L 2,500,000
St. Louis	16,049,500	9.0%	
Minneapolis	7,671,000	4.3%	
Kansas City	17,726,000	9.9%	
Dallas	18,831,500	10.6%	
San Francisco	29,154,000	16.3%	
	\$178,588,900	100.0%	\$178,588,900

This statement includes future purchases to be delivered on or before March 20,1926.



PURCHASES OF BANKERS ACCEPTANCES FROM JANUARY 4 TO MARCH 10, 1926 AND AMOUNT EACH BANK HAS RECEIVED IN EXCESS OR SHORT OF ITS PRO RATA SHARE UNDER APPORTIONMENT PLAN PUT INTO EFFECT JANUARY 4, 1926

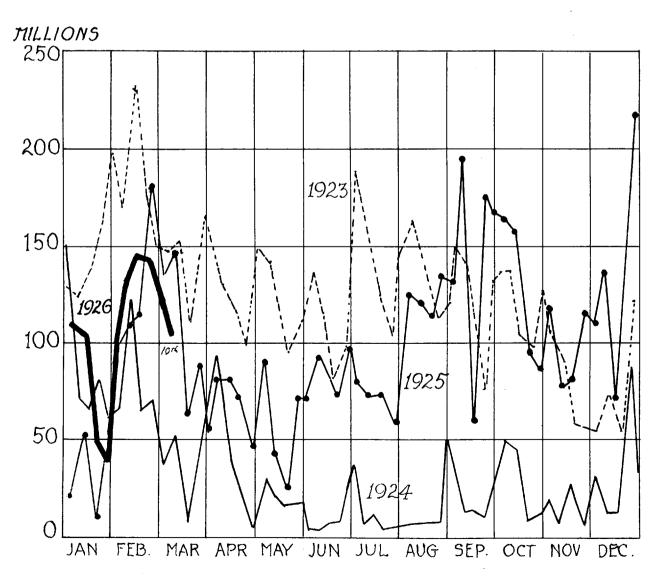
	Ratios of Participation	Bills Acquired (Not)	Bills Entitled to Acquire	Bills Over Pro rata Share	Bills Short Pro rota Share
Boston	7%	\$ 19,830,000	§ 19, 247, 000	្ង 5 8 3, 000	្នុំ O
New York	24%	62, 659, 000	65,992,000	0	3, 333, 000
Philadelphia	8%	25, 752, 000	21, 99 7, 0 00	3, 755, 000	0
Cloveland	10%	27, 395, 000	27, 497, 000	0	102,000
Richmond	5%	13, 792, 000	13,748,000	44,000	0
Atlanta	4%	11, 390, 000	10,999,000	391,000	0
Chicago	14%	38,012,000	38, 495, 000	0	483,000
St. Louis	5%	13, 262, 000	13,748,000	0	48 6, 000
Minneapolis	4%	10, 691, 000	10,999,000	Q	308,000
Kansas City	6%	15,908,000	16,498,000	0	590,000
Dallas	4%	10, 732, 000	10,999,000	0	267,000
San Francisco	9%	25, 543, 000	24,747,000	796,000	0
Totals	100%	3274,966,000	\$2 7 4, 966, 000	\$5, 569, 000	35, 569, 000

Exhibit C.

STATEMENT SHOWING EFFECT OF DISTRIBUTION OF SYSTEM OPEN MARKET FURCHASES DURING 1925 TO MEET EXPENSE
REQUIREMENTS OF FEDERAL RESERVE BANKS, WHICH DISTRIBUTION (1) DURING FIRST NINE MONTHS
WAS ON BASIS OF CURRENT EXPENSES AND DIVIDENDS AND (2) DURING BALANCE
OF YEAR TO PROVIDE FOR CHARGE-OFFS AS COMPLETELY AS POSSIBLE

	Gross Earnings	Current Ex- penses and Dividends	Current Net Earnings	Charge-offs, Depreciation Charges, etc.	Net After All Charges and Dividends
Boston	⇒ 3 ,288,546	2,528,503	760,043	w 122,110	• 637,933
New York	10,217,174	8,213,398	2,003,776	788,674	1,215,102
Philadelphia	3,135,549	2,709,480	426,069	21,162	404,907
Clevel and	4,013,456	3,378,441	635,015	203, 250	431,765
hi chmond	2,182,460	1,809,776	372,684	154,736	217,948
Atlanta	2,072,378	1,502,220	570,158	820,455	250,297
Chicago	5, 424, 663	4,686,253	738,410	551,153	187,257
St. Louis	2,055,637	1,696,853	3 <i>5</i> 8, 784	759,078	400,294
winneapolis	1,438,341	1,291,388	146, 953	105,558	41,395
Kansas City	2,309,986	1,985,870	324,116	299,621	24, 495
Dallas	1,813,626	1,478,583	335,043	312,147	22, 89 6
San Francisco	3.848.890	3,171,555	677.335	677,335	
Totals	\$41,800,70 6	\$34, 452, 320	47,348,386	4, 615, 279	\$2,533,107 Net

SUMMARY FOR SYSTEM	
Bills discounted for week	80,789-
Bills purchased for week	2,037-
Government securities for week	33,908+
Total earning assets for week	48,870-
Weekly average of earning assets Dec. 31, 1925 to Mar. 10/26	
against corresponding period 1925	124,342+
Weekly average of earning assets Dec.31, 1925 to Mar.10/26	
against entire year 1925	46,741+
Comparison of earning assets March 10, 1926	
with March 11, 1925	44,499+



Borrowings of New York City Member Banks at Federal Reserve Bank

Minhor

#2

333.-6-1

March 9. 1926.

Dear Gevernor Strong;

This is to savise you, as Chairman of the Open Market Investment Committee for the Federal Reserve System, of action taken by the Federal Reserve Board at its meeting this morning in voting that Washington be designated as the future regular meeting place of the Open Market Investment Committee, except when the Committee is anthorised by the Board to meet elsewhere.

Very truly yours,

(Signed) D. R. Crissinger

D. R. Crissinger, Governor.

Mr. Benjamin Strong, Governor, Federal Reserve Bank, New York, N.Y.



Form No. 181.		
Office (Correspor	er e

be veted on at the next meeting of the Boards

FEDERAL RESERVE BOARD

Late 16, 1936, 333-6-1

To Trall members

Mr. Mosil

Subject:____

At the mosting of the Executive Committee yesterday.

"That makington be designated as the future regular maching place of the Open Market Investment Consilton, escapt when the derection to make and by the Beard to most elembors.

Mr. Miller submitted the following motion which he requested

Motion Carried AT BOARD

see memo 3/30/26 see memo 3/23/26 see letter 3/9/26

Digitized for FRASER http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis

Office Corresponde	FEDERAL RESERVE BOARD	Date construery 6, 1926
ToAll Members of the Board	Bubject:	
From Mr. Eddy	-T/-	333 / 8406
	ion. Please return to	333,50

✓Mr. Platt Mr. Hamlin Mr. James Mr. Cunningham Dr. Miller Col. McIntosh

Governor Crissinger

Lee lette 2-3-26

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http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis By Drawishing 1

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The Board has considered the recommendations of the Open Market Committee dated May 11, 1927, for the period ending August 1:

5/13/27

(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."

With respect to recommendation No. 1, it does not appear to the Board that the next few months will show gold imports to the United States in any such volume as would indicate the necessity or desirability in existing circumstances of an offsetting operation by the sale of System securities. It has, therefore, nothing to suggest by way of modification of the course of action outlined by the Committee, unless there should be a marked change in the situation in which case the matter should be reconsidered. The Committee's recommendation is, therefore, approved.

With respect to recommendation No. 2, it is the opinion of the Board that the System's Special Investment Account should, sooner or later, in accordance with the policy which has governed the operation of the Account in the past, be replenished by the purchase of an amount of securities that would bring up the total

holdings in the Account to not less than \$200,000.000.

It is, however, the opinion of the Board that the present situation is not a favorable one for such an operation and that the resumption of purchases of securities for the Special Investment Account should be deferred until such time as it may appear that such purchases will have a desirable stimulating effect upon trade, The country is now entering a period of industry or agriculture. interseasonal/lull with the demand for credit for commercial use The only highly active market in the country is the There is accumulating evidence of speculative securities market. excesses, which in part has been reflected in recent weeks in a great growth of brokers' demand loans. It is thought not to be desirable to stimulate these by a reduction of the cost of money in the New York market such as would result from the purchase during the next two months of from \$100,000,000 to \$150,000,000 of securities for the System account.

It is the view of the Board that the movement of business, credit, gold, money rates and other factors bearing upon the credit and open market policy of the Federal Reserve System should be carefully and constantly watched, in order that when action is taken to replenish the Special Investment Account it may be done with a minimum of undesirable stimulation.

For its part the Board will follow coming developments affecting open market policy with care and will keep in touch with the Committee in order that there may be a prompt exchange of views and suitable action when conditions warrant. For the present the Board does not think the situation favorable to a securities-purchase operation and, therefore, withholds approval of the recommendation that the Committee at this time be given authority to purchase securities between now and August 1 to an amount sufficient to bring up the System's account to \$250,000,000.

A. C. Miller.

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK OF BOSTON

W.P.G. HARDING, GOVERNOR WILLIAM W. PADDOCK, DEPUTY GOVERNOR WILLIAM WILLETT, CASHIER KRICKEL K. CARRICK, SECRETARY

ASSISTANT CASHIERS

ERNEST M. LEAVITT L. WALLACE SWEETSER

FREDERIC H. CURTISS

CHAIRMAN OF THE BOARD

AND FEDERAL RESERVE AGENT

ALLEN HOLLIS

DEPUTY CHAIRMAN OF THE BOARD CHARLES F. GETTEMY
ASSISTANT FEDERAL RESERVE AGENT

February 3, 1926.

Dear Governor Crissinger:

Supplementing my letter of January 27, with enclosures, I hand you herewith copy of letter received today from Mr. Case, Acting Chairman of the Open Market Investment Committee, together with copy of my reply.

Hon. D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

Enclosures

COPY

FEDERAL RESERVE BANK

OF NEW YORK

February 2, 1926.

Hon. W. P. G. Harding, Governor, Federal Reserve Bank of Boston, Boston, Mass.

Dear Governor Harding:

I have your letter of January 27 and note with satisfaction that, upon thorough investigation, you find that the practice of the Boston bank in buying bills has conformed in every respect to the practice which has been carefully considered and generally adopted for Federal reserve banks.

While there seemed to be some doubt expressed at the last meeting of the Open Market Investment Committee in that regard, any doubt now is entirely dissipated by the result of your investigations, and there remains only for consideration the question of whether or not bills bought by reserve banks outside of New York should be distributed as New York's purchases are distributed, in accordance with the plan of the Open Market Investment Committee which has been accepted by each of the banks not represented on the Committee.

I note that your directors have expressed the opinion that the bills in your portfolio should not be turned over to the Committee for distribution but, however, are anxious to deal fairly with the other reserve banks and that you have no doubt that if the best interests of the System call for a distribution from your portfolio, they will be disposed to give you the necessary authority.

To me it seems a bit unfortunate that, in mamy of the discussions at governors' conferences with regard to the distribution of bills and the desirability of Federal reserve banks (restricting their purchases to bills offered in their own districts, the question of the place of origin of bills, i.e., the location of the accepting bank, was frequently injected. To my mind it only serves to becloud the main question as to what policy is most advantageous for the System, as a System, to pursue. I do not understand that in the deliberations, either of the Conference of Governors or of the Open Market Investment Committee, it was ever considered that the best interests of the System would be served by any federal reserve bank's developing as its open market policy in the buying of bankers bills, a monopoly of bills accepted in its own district or that, as a matter of right, any reserve bank should regard the volume of bills accepted in its district as a measure of the amount of bills which it might properly hold for investment, either with or without regard for the investment requirements of all of the other Federal reserve banks. On the contrary, as I have always understood it, the System policy for many years has been to distribute purchases according to the requirements or the abilities of each Federal reserve bank.



At times this has affected the position of the New York bank very substantially and in opposite ways. In times of stringent money and credit, the offerings to the Federal Reserve Bank of New York and its necessary purchases would have far exceeded the ability of the bank to continue to render the necessary support to the bill market, had it not been for its ability to distribute and the willingness of the other reserve banks to participate in the purchases made in New York for System account. At other times when the reverse of such conditions existed, the New York bank has been entirely willing not only to distribute its purchases in proportions determined by whatever committee was functioning at the time, but also to give off its own share in the distribution to banks which most needed additional investments, believing firmly that the best interests of the System were served by that policy.

You will recall that during the entire period of reserve bank operations in support of the bill market, the distribution of New York's purchases (and it was New York merely because New York happens to be the principal financial center of the country) has been dictated by a committee or comitteeman (originally, I believe, Governor Seay was a committee of one) and, generally speaking, that the extent of the deficiency in earnings in the several reserve banks was the basis of the measure of distribution. Practically, that is the basis of the distribution now, as recently ordered by the Open Market Investment Committee, and you will, of course, understand that the burden of responsibility for carrying out the policy of the Open Market Investment Committee, while shared by each member of it, rests in a somewhat greater degree upon the Chairman, and that his position is a difficult one if any one of the twelve reserve banks evidences apparent disregard for the recommendations of the policy recommended by the Open Market Investment Committee and accepted by each of the twelve banks. It is very apparent to me that the retention by the Boston reserve bank of bills bought in its market in excess of the proportion of bills bought in the system that the Boston bank would be entitled to receive or tetsin according to the Committee's schedules, constitutes a disregard for the System policy recommended by the Committee and accepted by all of the banks.

Incidentally, I note from the Secretary's report covering purchases from January 4 to January 27 that the Boston bank bought upwards of \$22,000,000 of bills which it has retained and that this constitutes an excess holding merely on those purchases of about \$14,500,000 and I feel that I must suggest that unless the whole arrangement of System policy in open market bill purchases is to be thrown in to the discard, an adherence to the plan agreed upon, i.e., distribution on a pro rata basis of all bills purchased, wherever purchased, and without regard to the district in which they originate, is clearly indicated.

An expression of your own views in reply to this will be appreciated.

Very truly yours,

S/ J. H. Case, Acting Chairman, Open Market Investment Committee.

Pebruary 5, 1926.

My dear Wr. Case:

I am obliged to you for your letter of February 2 which I shall tring to the attention of our Directors at their meeting next Wednesday. Your lett r, I think, clarifies the situation and coens the way for a satisfactory adjustment of the question of the distribution of bills purchased by this bank.

You will remember that, at the last meeting of the Open Market Investment Committee, it was rather broadly intimated that the practice of this bank in surchasing bills was unsound and unethical as a statement was made that we were in effect outting rates. I suggested to our Directors at their last meeting that they authorise me to submit to the Committee a plan for the distribution of bills which seemed to me to be equitable, but the Directors were unwilling to agree to any proposition as long as the bank rested under the imputation of unethical conduct. I said to the Directors that as far as I knew, the direct purchases of bills by all Federal reserve banks except New York were retained by them in their respective portfolios, and that the earnings derived from such investments were necessarily taken into account by the Committee in the distribution of bills purchased in New York. I recall that Governor Norris said that the amount of bills purchased by the Philadelphia bank was not in excess of the amount which would otherwise be allowed to it by the Committee, and I suggested that suthority be given me to say to the Committee that any bills held by this bank in excess of \$40,000,000 be placed at the disposal of the Committee to be sold either direct to the New York bank for redistribution, or to be sold from time to time te such reserve banks as the Chairman of the Committee might indicate. However, for the reason above stated, the Directors declined to agree to this.

Based upon our experience of the past two years, I estimate that it will be necessary for this bank to hold as a minimum \$40,000,000 of bills in order to meet its expenses and dividends.

I do not think there would be any economy in turning over to the Committee all bills purchased and receiving back our preportionate allotment; and I do not believe that our Directors would agree to this unless every other Federal reserve bank should agree to do the same thing. At the maxt meeting of the Directors I shall renew my recommendation; and I hope to be able to advise you after that meeting that all the bills in our portfolio in excess of \$40,000,000 are subject to the disposal of the Committee.







-2-

In case it should be found as the year edvances, that \$40,000,000 will likely be more than is necessary to meet our requirements, I will then suggest that our holdings be further reduced in order that a larger amount might be made available for the Committee.

In citing the figures which I understand were furnished by the American Asceptance Council showing the acceptance liability of banks and bankers in each Federal reserve district, my object was merely to point out the fact that Boston ranked next to New York as a bill market and that the acceptance business here was much larger than that in any of the other two Federal reserve districts.

I agree with you fully that in order to develop a bill market properly, no Federal reserve bank should undertake to secure a monopoly of bills accepted in its ewn district, or confine its purchases to such bills; nor did I intend to give the impression that it was my opinion that a reserve bank should regard the volume of bills accepted in its own district as a measure of the amount of bills which it might properly hold for investment without regard to the investment requirements of other Federal reserve banks. On this point there is no difference of opinion between us.

In view of the fact, however, that credit in this district is extended so largely through the medium of bankers' acceptances and demands on us for rediscounts are ordinarily small, it is necessary for us to hold a larger volume of acceptances than would otherwise be the case.

I shall be glad to hear from you again before mext Nednesday.

Very truly yours,

Governor.

Mr. J. H. Case, Acting Chairman, Open Market Investment Committee, Federal Reserve Bank, New York, N. Y.

SFECIAL

To:

Mr. Flatt
Mr. Hamlin
Mr. James
Mr. Cunningham
Mr. McIntosh

February 4. 1926.

For your information, there is attached hereto letter and enclosures from Governor Harding with reference to the purchase of bills in the open market by the Federal Reserve Bank of Boston.

Please return to Secretary's Office.

Form No. 131.

Cifice Correspondence

FEDERAL RESERVE BOARD

Date_	Jan.	31,	1926.

To Mr. Eddy

Subject:

From Governor Crissinger

I have glanced over hurriedly the letter of Mr. Matteson with a statement of the practice of the Federal Reserve Bank of New York regarding the purchase of bills in the open market.

The practice, as reduced to writing, illustrates that you can hot always depend upon just what is said at an open market conference. As I understood, the explanation made at the open market conference was this: - that they rarely bought from dealers, but I see from this statement that there was \$547,900 purchased direct from dealers, which is not unlike the practice at Boston. that extent I want the Board to understand the information is surprising to me because I think Governor Strong stated that they rarely bought from dealers This would indicate that there is a pretty free access but occasionally did. of the dealers into the Federal Reserve Bank with bills.

I am taking the Matteson letter and a copy of the statement with me and will return it.

It-looks as if the only relable reformation in these Bentes must

form the actual sperator

333 July

W. P. G. HARDING, GOVERNOR
WILLIAM W. PADDOCK, DEPUTY GOVERNOR
WILLIAM WILLETT, CASHIER
KRICKEL K.CARRICK, SECRETARY

ASSISTANT CASHIERS
ELLIS G. HULT
ERNEST M. LEAVITT L. WALLACE SWEETSER

FREDERIC H. CURTISS
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT
ALLEN HOLLIS
DEPUTY CHAIRMAN OF THE BOARD
CHARLES F. GETTEMY
ASSISTANT FEDERAL RESERVE AGENT

January 27, 1926.

Dear Governor Crissinger:

You no doubt recall the discussion which took place at the last meeting of the Open Market Investment Committee regarding the purchase of bills by the Federal Reserve Bank of Boston. I am now enclosing copy of a memorandum dated January 21 from Mr. Kenzel of the New York bank together with copy of letter I have today addressed to Mr. Case.

This letter was read to our directors just before their meeting adjourned today in order that I might be sure it reflected their sentiments correctly.

Very truly yours

Governor.

Hon. D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

J Enclesures

see letter 13/26.

30 PEARL STREET

January 21, 1926.

PRACTICE OF THE FEDERAL RESERVE BANK OF NEW YORK IN THE PURCHASE OF BILLS IN THE OPEN MARKET

Bills are bought for System account of offerings by member banks, banking institutions and discount houses. The offerings are made at rates named by the seller and are accepted or declined by the bank, which does not bid for bills or name rates at which it would buy. All bills bought must bear banking indorsement, i. s., bank or banker (but not necessarily a member bank) favorably known to the Federal Reserve Eank, thus requiring three-name paper, two different names on which shall be banking names, and at least one of those shall be an American name. The indorsement of discount houses with substantial capital used exclusively in the discount market is regarded as banking indorsement.

Effective buying rates are established with a view to requiring distribution of bills among the banks, bankers and other investors, rather than inducing or permitting offers of long bills directly to the preserve bank by discount dealers. To this and, the minimum buying rate for the longer maturities is maintained at or near the rate at which investors buy two-name paper from the discount dealers, and slightly lower rates are made effective for short maturities. The purpose and effect of this are to attract short maturities and repel long maturities, which is regarded as dealrable in that it tends to limit the time for which faderal reserve credit is liberated and makes rate changes more immediately effective; also, it permits a slight profit to banks and banking institutions which buy and hold bills for accordary reserve, thereby inducing breadth in the market, and it also permits the reserve bank to see a considerable portion of the bills which have circulated in the market, so that they are in constant touch with the character of the paper current.

The principal aim of these practices is to give a degree of stability to the market which will inspire confidence that prime bills may be negotiated safely by banks at home and abroad, with a certainty of their discount in the market, at rates reasonably stable and related to ther money rates. This requires that the bank shall buy freely from banks prime bills of all maturities offered to it at its current established rates and that short maturities also be taken freely from discount houses. On occasion also, when there is a temporary surplus of bills in dealers' hands, longer maturities may be quite freely taken from discount houses, but ordinarily dealers are not encouraged by too free purchases of long bills to relax in their efforts to distribute them through ordinary banking channels.

The occasion for the rather free purchase of short maturities from dealers erises in the fact that as they must stand ready to buy all sizes and maturities offered by their clients, and short maturities and small pieces are not freely resalable to banks, which buy for their reserve requirements, considerable quantities of such bills accumulate in dealers hands, which constitute practically an excess of bills on the market. By relieving the dealers of this unfashionable paper their sbillity to buy and carry longer bills is refreshed.

In buying for account of foreign correspondent banks, the bank goes to the market, thereby giving the primary market the advantage of that investment buying through the reserve bank, the same as would result if the purchases by foreign banks were made through other American correspondents.

The result of these practices over a period of years is illustrated in the statistics of operations for the year 1925.

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30 PEARL STREET

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In 1925, the bank's total purchases of bills amounted to \$1,342,500,000 on this volume, purchases from banks and bankers were and " dealers 547,900,000

Eliminating purchases made for account of foreign banks and member banks, the purchases for the System were:

From banks and bankers From dealers \$794,600,000 317,000,000

Total

11,111,000,000

Of the purchases for System account from dealers, roughly 2/3, or over \$200,000,000 were of very short maturities, the belance being of long bills taken at times and in amounts necessary to maintain stability of rates and effective functioning of the discount houses.

Reference is made to the resolution edupted by the General Committee on Bankers Acceptances, appointed by the Gevernors Conference of May 1922, at its meeting in Chicago, June 12-14, 1922, an extract from which, with regard to the operations of Federal reserve banks in the open discount market for acceptances, is attached hereto.

Original aent by

M.B. Matteson of the

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30 PEARL STREET

EXTRACT FROM RESOLUTIONS ADOPTED AT THE MEETING OF THE GENERAL COMMITTEE ON BANKERS ACCEPTANCES, JUNE 12-14, 1922.

(9) Operations of Federal reserve banks in the open discount market for acceptances.

Transactions in the open market should be recognized as entirely distinguished from rediscounting under Section 13. Whereas the latter permits discount only for member banks and contemplates the rediscount for any member bank of a reasonable line of such bank's advances to customers in eligible transactions, thereby assuring to the member bank a reasonable and certain accommodation through rediscount in which the initiative is always taken by the member bank and cannot be taken by a Federal reserve bank, the open market provisions of the Act contemplate and provide for the voluntary purchase by Federal reserve banks from any corporation, firm, or individual of bankers acceptances and trade bills of such high standing as circulate freely in the own market; and free circulation of any paper in the open market depends upon the willingness of a large number of strong financial institutions, firms, and individuals to buy it. Such willingness cannot exist with respect to paper, the proper origin and purpose of which is not recognized and understood by dealers and buyers in the open market now with respect to paper accepted by institutions or concerns financially unimportant or only locally known, unless its marketability has been improved by the addition of strong and well known indorsement, which a banking indorsement is recognized to be, with due regard for the amounts indorsed in relation to the known financial strength of the Andorser. Federal reserve banks, therefore, in buying bills in the open market should take them only through recognised open market channels and should not buy as an open market operation, paper which has not first been sold in and carried in the open market in a bona fide and customary way. Bills accepted for customers and discounted by the accepter should not be offered to Federal reserve banks by the accepter way should be accepted to be accepted. banks by the acceptor nor should Federal referve banks buy such bills so offered. Such a transaction is in essence a regiscount of customers' paper indersed by the accepting bank and should not be permitted to occur in the disguise of an open market purchase. The purchase, however, from peacer banks of open market paper which they themselves have either purchased or discounted is a proper and necessary open market operation as by such purchases, as well as by purchases of open market paper offered by dealers and discount houses, do the Federal reserve banks give that stability to the open discount market without which it could not enjoy either the strength or breadth required to make it of national importance and national asset. The true function of Federal reserve banks in the open bill market is to constantly and actively support it so that holders of acceptances may with certain confidence rely upon it, that when no other purchaser happens to be in the market absorbing the bills caming into it that Federal reserve banks will always be there to take up the slack. Thus will be established a standing for bankers acceptances in the open market that will create so constant a stream of buyers that the moral support of the Federal reserve banks will prove of greater importance than their actual purchases. Since Federal reserve banks must be prepared at all times to support the acceptance market by liberal purchases under which large lines of particular names may accumulate, the requirement of a third name, i. e., a banking indorsement other than that of the acceptor should always be a condition. This requirement not only provides a distribution of risk in respect of the liabilities of any acceptor but also assures the bona fides of the market standing of the particular bill and name. Care should be taken, however, to guard against acquiring bills which bear accommodation indorsements as might happen if accepting banks exchanged bills, particularly if both or either of them were names that would not freely circulate in the open market. Such paper should not be taken by Federal reserve banks as open market purchases, since it is not open market paper, but rether they should require it to be offered for rediscount at the rediscount rate.

The function of Federal reserve banks being to give stability to the open discount market, they should abstain from conducting their open market operations in a

30 PEARL STREET

-2-

way that would tend to create instability in rates, either to advance or to depress them. Whether the rate is high or low is of less importance to the user of credit or the holder of bills than the knowledge that the bill will find a ready market at a rate fairly comparable with the ruling market rate, and the banker must be able to rely on a fairly stable rate. Therefore, Federal recerve banks should not compete in the market for bills, even for the purpose of increasing earning easets, since the injection of central bank funds by such competition has the effect of reducing rates abnormally; nor should they sell bills from portfolio back into the market and so conversely create an abnormal and artificial stringency in rates. Meither should they declare to purchase at their current buying rate considerable quantities of good bills offered, without consideration of the effect that such refusal would have in advancing rates in the market. The position of a central bank in relation to the open market is best preserved by their declining to bid for bills offered for immediate delivery and to require offerings to be made at rates named by the seller. If such rate is inappropriate the offering should be declined; in fact, in all offerings the position of the Federal reserve banks should be of accepting or declining. Negotiations and bargaining with respect to the usual open market offerings of bills should not be permitted. The exceptions to the above rule are the reasonable assistance that should be afforded to country banks, out of close touch with up-to-theminute market rates, which might desire to well by/is from their portfolios to their Federal reserve banks; and the quoting of rates of offerings of bills to arrive from fereign countries at some future date, say thirty, sixty, or ninety days hence. It is the proper function of Federal reserve banks to quate rates and make forward contracts for the purchase of bills to arrive as an important element of atability as to rates, both of bills in the domestic market/and of dollar exchange in foreign markets, is thereby created. Strength and etability in the forward market is as important as similar conditions in the spok market and at times there is no element in the market other than Federal reserve banks competent and milling to make an important forward commitment that would do justice to the position of deller exchange and dollar bills in world markets.

In establishing effective buying rates for prime bills the purpose of Federal reserve banks should be to keep their rates for long bills elightly above the rates at which they are sold by dealers in the open market, thus encouraging a wide distribution of new bills as they come tate the market. In the present state of development of the bill market they should buy long bills freely at such rates when they are offered by member banks and acceptance banks which carry their reserves in bills, and when they areoffered by dealers at times when there is a congestion of bills in the market resulting from temporary lack of demand coincident with increased offerings of new bills in the market, thus making it possible for dealers and discount houses to absorb the new bills offered without themselves accumulating unwieldy lines. In fixing the effective buying rate for long bills the value of the banking indorsement should be considered and allowed for. The open market quotes unindorsed bills and indorsed bills differently, there usually being from 1/8 to 1/4% per annum spread between the two, depending upon the combination of names, so that a bill that sold in the open market without indorsement at 3% might sell at 2 7/8% with a good inflorement and a Federal reserve bank buying such bill bearing satisfactory banking indorsement at 2 7/8% or at 5% would be buying it at or above the market as the case might be. Too much spread between open market prices and the Federal reserve bank buying rate is not desirable because long bills will not be freely bought by banks and bankers for secondary reserve purposes at current rates if they beg lieve that in the event of their having occasion to sell a portion of their portfolio to a Federal reserve bank they willingur an actual loss of interest on a long bill. On short bills, say those within fifteento thirty days of maturity, Federal reserve banks in the present stage of development of the open discount market should make and maintain an effective buying rate for practically unlimited volume slightly under the rates obtaining in the open market on similar bills of longer maturity, the purpose being to attract offerings of short bills, thus permitting Federal reserve banks to see a goodly

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30 PEARL STREET

proportion of all the bills which come through their respective markets and to encourage, by making it profitable for banks and bankers to carry the longer bills in their portfolios as secondary reserve, buying the long bills in the market and selling them to rederal reserve banks as they approach maturity. In buying long bills and in quoting ferward rates for bills to arrive the aim should be to establish rates which in the judgment of the rederal reserve bank will be a fair average of the rates which spot bills will command during the period from the time of purchase or contract to the maturity of the bills bought. Thus if the tendency of rates seems to be upward forward contracts will be made slightly above the spot rate for bills of similar maturity, but if the tendency of rates is downward the forward rate quoted may be at or slightly under the spot rate for similar maturities. In general, the purpose of Federal reserve banks should not ordinarily be to lead the market up or down. When that is the purpose of Federal reserve banks it is more definitely and better adomplished by a change in the rediscount rate. Excepting in unusual, circumstances the forest the Federal reserve banks will best serve as stabilizers in the open discount market by following the market in its definite swings up or down but disregarding temporary changes which may occur in the open market from day to day until a definite trend is developed and recognised.

Inasmuch as the primary market for bills is with the discount houses and bill dealers who must sarry at all times substantial partfolios in their service to buyers and sellers of bills in the market, it is exactful to the maintenance of a broad and strong market that dealers and discount houses shall at all times have available to them funds with which to carry substantial partfolios to rates related to the market rates for bills rather than to the requirements of stock brokers who borrow call money against investment securities. The day to day fluctuations in the rates for call money against investment securities are such that dependence upon money loaned in that market at such rates is impracticable for discount houses and bill dealers, and a new call and short time money market has been developed in hew tark and is in the course of development in other centers for the accommodation of the discount market. The supply of such funds available being at times instead at rates at which the discount market by temperary purchases of bills from discors and discount houses under remarchase sgroements of short duration, say not to exceed fifteen days. The committee deems that this facility is equal in importance to the purchase by Federal reserve banks of the excess of bills that from time to time is created but that is purely an open market operation and should be granted only to dealers and discount houses who have not the facility of rediscount available to member banks and further limited to those houses and corporations which have filed astisfactory financial statements with the Federal reserve bank, and to amounts for such houses on short bills if it were the practice of such houses to indorse.

The rate at which this accommodation is granted to discount houses and dealers should be a money rate reasonably related to the current rates for unindorsed ninety day bills in the open market, and the current effective rate at the Federal reserve bank for short bills. The Federal reserve banks should not use this outlet for their funds in competition with the outside money market and should not grant the facility at times when the supply of funds available to discount houses and dealers inthe outside market is sufficient for their needs at rates reasonably related to the rates carned on the portfolios carried by the discount houses and dealers, the purpose of this operation being to supplement the supply of outside money in periods of temporary stringency and to assist the development of local call money markets on bills in Federal reserve bank; cities.

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January 27, 1926.

Dear Mr. Case:

Referring to the question of purchases and distribution of acceptances which was brought up at the redent meeting of the Open Market Investment Committee, I wish to say that on Monday last we received from Mr. Matteson copy of Mr. Kensel's memorandum dated January 21, to which was attached a paper containing excerpts from a resolution or rather a declaration which was made at a meeting held in Chicago in June 1922, by a special committee which was appointed at the Governors' Conference held in May of that year. This declaration was submitted to the Federal Reserve Board while I was still a member of that body and was approved.

X

Upon receipt of Mr. Kensel's memorandum, I held a conference with the Deputy Governor, Cashier and three Assistant Cashiers and went over it line by line. I find that in all cases we have adhered strictly in buying bills to the rates at which they were bought by the Federal Reserve Bank of New York; that we have in all cases required three names, i.s. the drawer and the acceptance and endorsement of a bank or banker. Our practice has coincided with that of the Federal Reserve Bank of New York as outlined by Mr. Kensel and conforms strictly to the principles outlined in the Chicage resolution or declaration to which reference has been made above.

The whole question was discussed fully at our Directors' meeting this morning and they see no reason why we should change our practice.

Now, in regard to the distribution of acceptances. I have before me some figures which were compiled by our Statistical division and which show the acceptance liabilities of all banks and acceptance corporations on the last day of each month throughout the year 1925. The average for the year for all twelve Federal reserve districts amounts to about \$700,000,000. The average for the New York district was about \$500,000,000. For the other districts the averages are as fellows:

Boston	\$ 90,000,000
Philadelphia	12,000,000
Cleveland	11,000,000
Richmond	10,000,000
Atlanta	13,500,000

Mr. Case

Jamuary 27, 1926.

Chicago \$	\$2,500,000
St. Louis	5,000,000
Minneapolis	5,000,000
Kansas City	8,000
Dallas	2,300,000
San Francisco	18,000,000

Our statistician tells me that acceptances made by Brown Brothers & Company, Kidder, Peabody & Company and Lee, Higginson & Company are included in New York's figures and do not appear in the Boston totals.

The average acceptance holdings of the Federal Reserve Bank of Boston throughout 7 the year have been substantially loss than the average acceptance liabilities of banks and acceptance corporations in this district. While it is true that the bills in our pertfolio have not been exclusively bills ori inating in this district, the difference is more than made up by the amount of Boston bills which have been purchased elsewhere. In other words, had this bank exerted itself to menopolise the purchase of Boston bills and had refrained from purchasing any bills which originated in other districts, our total holdings would not have been diminished. However, this bank has purchased no bills in other districts but has confined itself exclusively to acceptances offered here in Boston.

Acceptance credits are widely used in this district; more so than in any other district with the exception of New York, and our transactions with member banks in the way of advances and rediscounts during the year 1925 averaged only about \$30,000,000 or less than 25 per cent of member banks' reserve deposits. This is a much smaller proportion than is shown in most of the other districts. The income derived from member banks solvences and rediscounts would have been utterly inadequate to meet our expenses. It is necessary for us to have average earning assets throughout the year of at least \$75,000,000 in order to pay expenses and dividends. We are approaching the season when our earning assets may be expected to decline rapidly with no reaction until late in the year.

Our Directors at their meeting this morning expressed the opinion that the bills in our portfolio should not be turned over to the Committee for distribution. They do not feel that there has been anything unethical in the conduct of the business of the bank and are unwilling to eanction any action which might have the appearance of making such a concession. They are anxious, however, to feal fairly with the other reserve banks and if it could be shown that the best interest of the System calls for a relinquishment to other banks of a proportion of our bill portfolio, I have no doubt that they will be disposed to give me the necessary authority.

Very truly yours,

Covernor

Mr. J. H. Gase, Deputy Governor, Federal Reserve Bank, New York, N. E.

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SFECIAL

To: Dr. Miller

February 1, 1926.

I think you will be interested in reading the attached correspondence before it is presented to the Board. I have brought it to Governor Crissinger's attention, and your attention is called to his memorandum which is also attached.

They,

- 2

January 25, 1926.

333-6-1

Dear Mr. Came :

Receipt is soknowledged of your letter of Jamery 22nd, addressed to Governor Crissinger, in which you state that Governor Strong has suggested that you advise the members of the Open Market Investment Committee that money conditions are easing considerably in New York with the result that a molerate demand for short-term Governments has sprung up, and that you are therefore inclined to the view that it might be well, beginning white week, to supply the market from time to time with a moderate smount of these securities (not exceeding \$60,000,000) as and when definite orders present themselves.

Your letter was brought to the attention of the Board at its meeting this morning, and no objection was empressed to your Committee Furnishing the market with an amount of certificates up to \$50,000,000

against definite orders.

Very truly yours,

Round Partt,

Mr. J. H. Case, Deputy Governor, Federal Reserve Bank, New York, N.Y. WESTERN UNION TELEGRAM 2-8786 GPO Trasury Department
Telegraph Office

333-61

80w fn 5 collect govt

Marion Ohio 134p jan 25 1926

Eddy

fed res bd Wash

Approve selling fifty million-

D R Crissinger

2p

http://fraser.stlouisfed.org/ Federal Reserve Bank of St. Louis

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FEDERAL RESERVE BANK

OF NEW YORK

January 22, 1926.

Dear Governor Crissinger:

IN RE: Open Market Investment Committee

Referring to the discussion at the meeting of the committee held here on January 18, with regard to the \$50,000,000 of short-term Government securities acquired during the latter part of 1925 for possible resale in January 1926:

In considering, to-day, the liquidation that has taken place in the earning assets of the System, and the fact that our own earning assets have been reduced approximately \$200,000,000 since January 1, Governor Strong has suggested that I advise the members of the Open Market Investment Committee that money conditions are easing considerably in this center, with the result that a moderate demand for short-term Governments has sprung up; and we are, therefore, inclined to the view that it might be well, beginning next week, to supply the market from time to time with a moderate amount of these securities (not exceeding \$50,000,000) as and when we have definite orders presented to us for them. (Yesterday one of the dealers offered to purchase \$1,000,000 of the December 15 - 3 3/4% certificates at par, and to-day another dealer stated that he could place \$2,500,000 on the same basis.)

The foregoing appears to be in line with the thought of the members of the committee as expressed at the meeting last Monday.

Honorable D. R. Crissinger L. Washington, D. C.

see ans 1/25/26

Form No. 131.

Office Corresponde ce

FEDERAL RESERVE BOARD

Date January 20, 1926

To_	Governor Crissinger,	
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Subject:

From Mr. Eddy

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With your permission I will insert in the minutes of yesterday's meeting the following as your verbal report to the Board of what took place at the meeting of the Open Market Committee last Monday:

The Governor stated that he had attended the meeting of the Open Market Investment Committee held in New York on Monday, January 18th, and reported that the Committee had discussed the question of disposing of the \$50,000,000 of short-term Government securities which it acquired during the latter part of December for possible resale this month. He stated that the Committee felt, in view of existing market conditions and of the fact that there are about \$65,000,000 of securities in the open market investment account which mature next March, that it is not advisable to sell the \$50,000,000 of securities immediately, but that developments in the situation should be closely watched and action taken at such time as developments disclose the desirability of selling. The Governor also reported that the Committee had discussed the matter of the large volume of bills being offered by dealers in Boston and acquired by the Federal Reserve Bank of Boston, and that it was the sense of the Committee that all purchases of bills made by Federal Reserve banks in cities outside of New York in excess of the pro rata shares of the purchasing banks, should be allotted proportionately to all banks participating in the open market account. She stated that Governor harding of the rederal Reservant Bank of Boston ad stated to the Committee that he would is directerwish the constitute s view and advise the Countities scalp date of the decision applied at by the discotors.

He stated that the reason for the bills being offered out of New York sta Boston was due to the method of buying bills in Boston. Bills are only bought in the New York market from member banks, while at Boston, if bills are offered to the member banks, say, at 3 5/8ths, they are not taken by the member banks, then the practice has been to take such of the bills as the Federal Reserve Bank of Boston desires at 3 1/2. This method of buying opened a direct inlet into the Boston bank instead of going through member banks and paying a commission of 1/8th to the member banks for endorsing and handling the bills, whereas, the method in Boston eliminated this and gave the profit of 1/8th to the brokers. He stated that Governor Harding was without power himself to make an agreement about changing this policy, but Governor Harding advised that he would take it up with the directors of the Boston bank and advise them of the views of the Open Market Committee and that he believed he could bring about an adjustment with the directors.

and I

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FEDERAL RESERVE BANK

OF NEW YORK

REPORT ON FOREIGN ACCOUNTS

January 18, 1926.

To the Members of the OPEN MARKET INVESTMENT CONTINUES.

Carded

Since the last report to the Committee, there has been an increase of about \$44,000,000 in the amount of bills held for foreign bank accounts and we expect an additional amount of \$2,000,000 to be added today for account of the Swiss National Bank. The increase in the amount of bills is brought about principally by purchases of \$35,500,000 of bills for the Reichsbank; \$5,000,000 for the National Bank of Hungary, and increases of \$2,300,000 in the holdings of the Swiss National Bank; \$500,000 for de Javasche Bank and \$700,000 for de Nederlandsche Bank. The usual comparative statement is attached hereto from which it will be observed that all of the foreign accounts are included in the participation which the other Federals have accepted since the last meeting of the Committee.

We have already distributed among the other Federal reserve banks their prorata shares of the profits on the foreign accounts for the past year and the Governors have received explanatory statements.

In accordance with the established practice, the percentages of participation of Federal reserve banks for the foreign accounts have been brought up to date using the figures for capital and surplus as of January 2, 1926. These new percentages for the year 1926 have been advised to the other Federal reserve banks and are given below for the Committee's records:

AT BOARD WITH IN



To the Members of the OPEN MARKET INVESTMENT , DEMITTEE.

1/18/26.

		New Percent ages	01d Percentages
Federal Reserve Bank of	Boston New York Philadelphia Cleveland Richmond Atlanta Chicago St. Louis Minneapolis Kansas City Dallas San Francisco	7.6% 27.4 9.5 10.7 5.3 4.0 13.7 4.3 3.2 3.9	7.4% 27.0 9.3 10.7 5.3 4.1 13.8 4.6 3.3 4.0 3.5 7.0
	Very truly you	•	7.0 A countrains

J. H. CASE, Deputy Governor.

Bankers Acceptances Treasury Notes	Nederlandsche \$6,857.69	Bk Bk. of Japan . \$2,097.11	From 11/11/2 Javasche Bk. N	TAL COLAITSSIONS EARN 5 to 1/16/26 inc B of Hungary Swies \$2,924.24 \$6,80	clusive N/B Reichsban	k Sveriges Rij 82 \$ 0 3,768.83	kebank Agent Gen. 8 0 3 321.95	Totals \$39,200.19 4.090.78 \$43,290.97
				2,025,550.09		\$10,36	51,615.97	
	Reichsbank Sveriges Ri	ksbank				1,93	39,284.68 22.539.59	
	National Ba	lank of Belgium ink of Hungary		583.14		12	583.14 27,320.79	
	de Nederlan	idsche Bank		250,589.88 249,774.50			19,976.04 50,200.26	
		Republic of Colombia	a	495,224.09			32,521.63	3.0
	Bankovni ur Bank Polski	rad Kin isters tva Fina: L	nci	100,159.68 252,705.18			8,274.03	**
		lonale Suisse		502,213.53 141,898.91			02,114.00 16,133.37	۵ د
	Bank of Eng Bank of Fre	ance		66.28		·	6 2,442.96 65.80	
		ral for Reparation Pa		\$ 32,334.90		\$	0	
	,			FREE BALA CE Close 11/10/25	<u>es</u>	Ø1	1/16/06	
		44,300,000,000	+ <u> </u>			lary 25, 1926	\$10,595,596.16	Bank of l
In Bank Pol	ski	Amount \$6,300,000.00	Re	te /2%	Matur	ity Date	Amount	Held by
				FOREIGN LOANS ON		.67.77	Collater	
				ichsbank	2,554,9 5,000,0 \$9,369,2	00.00		
			Bar	Javasche Bank nk of the Republic ss National Bank,	1,000,0			6.40
		ti di kalin kalin kalin kalin di kalin	*-	EARL'ARKED GOLL				
			SV ez	riges Riksbank	11,000,0 \$33,590,0	000		
·			Bani	nt General k of England	\$ 2,590,0 20,000,0	000		
				TREASURY SECJE				
On Hand 1/16/26	4,530,068.75	14,164,374.39	6,802,934.15	15,044,229.81	35, 493, 381.41	5,001,586.62	81,036,575.13	
Matured or dis- counted	4, 322, 881.11	11,708,994.76	5,126,943.60	11,657,578.32	0	0 ·	32,816,397.79	
Purchased	4,322,513.56	12,397,521.92	5,609,544.20	13,964,481.90	35, 493, 381.41	5,001,586.62	76,789,029.61	
On Hand 11/10/25	\$4,530,436.30	\$13,475,847.23	\$6,32 0,33 3. 55	\$12,737,326.23	\$ C	•	\$37,063,943.31	
Close of Business	Bank of Japan	De Nederlandsche Bank	De Javasche Bank	Swiss National Bank	Reichsbank	National Bank of Hungary	Totals	
				TO OPEN MARKET INVESTIGATION BASILLERS ACCEPT	STIENT COLLITIES		January	18, 1926.

FEDERAL RESERVE BANK

FEDERAL RESERVE BANK OF

STATEMENT OF COMMISSIONS CHARGED ON INVEST-MENTS FOR FOLLOWING FOREIGN ACCOUNTS FROM JULY 1 TO DECEMBER 31, 1925 INCLUSIVE

	Bank Acceptances	U. S. Treasury Securities
Agent General for Reparation Payments, Berlin	\$ -	\$ 778.00
Bank of Japan "B"	5, 301.75	••
Bank of Japan "G"	1,957.57	
Banque Nationale Suisse, Zurich	15,487.41	498
De Javasche Bank, Batavia	8,513,34	•••
De Nederlandsche Bank, Amsterdam	17,660,76	
Mational Bank of Hungary, Budapest	2,924,24	u
Reichsbank, Berlin	14,511,54	***
Sveriges Riksbank, Stockholm		3,768,83
TOTALS	- \$64,356.61	\$ 4,546.83

RECAPITULATION

Bankers Acceptances	T
GROSS COMISSIONS	- \$68,903.44
Less estimated out-of- pocket expenses of Federal Reserve Bank of New York in running participated accounts July 1 to December 51, 1925 inclusive	- <u>10.015.69</u>
NET AMOUNT AVAILABLE FOR DISTRIBUTION	- \$58,887.75
Percentage your participatio	n %

December 31, 1925.

FEDERAL RESERVE BANK

OF NEW YORK

FEDERAL RESERVE BANK OF

Statement of free balances, investments and earmarked gold held for foreign banks as of close of business December 31, 1925, in which Federal reserve banks participated.

	Actual figures
Free Balances	at close 12/31/25
Bank of England Current Account	\$ 312,442.96
" " Deposit Account	4,250,000.00
Bank of France Account "A"	65 .80
Bank of Japan Account "B"	500,508.68
H H H H H H GH	7,981.01
Banque Nationale Suisse, Zurich	423,591.89
Bankovni urad Ministerstva Financi	100,159.68
Bank Polski, Warsaw	203, 287 .37
Bank of the Republic of Colombia	482,521.63
De Javasche Bank	250,964.17
De Nederlandsche Bank	250,817.01
National Bank of Belgium	583.14
National Bank of Hungary, Budapest	618,101,18
Reichsbank	672,672.61
Sveriges Riksbank	172,545.57
	\$ 8,246,242.70
U. S. Treasury Securities	
Agent General for Reparation Payments	\$ 1,400,000.00
Bank of England	20,000,000.00
Sveriges Riksbank	11,000,000,00
	\$32,400,000.00
Bankers Acceptances	
Bank of Japan Account "B"	2,517,159 ,59
n n n u uda	2,009,099.07
Banque Nationale Suisse, Zurich	12,930,842.66
De Javasche Bank	6,732,233.13
De Nederlandsche Bank	14,157,250.99
National Bank of Hungary	5,001,586.62
Reichsbank, Berlin	26,996,698.65
	\$70,344,870.71
Earmarked Gold	
Banque Nationale Suisse, Berne	6.554,965.90
De avasche Bank	814,260.00
Reichsbank	5,000,000.00
	\$12,369,225.90

DECEMBER 31, 1925.

FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BANK OF

STATEMENT OF PARTICIPATION OF FEDERAL RESERVE BANKS IN FREE BALANCES AND CONTINGENT LIABILITY ON BANKERS ACCEPTANCES PURCHASED AND HELD FOR FOREIGN BANKS AS OF CLOSE OF BUSINESS DECEMBER 31, 1925.

		Froe <u>Balances</u>	Banyers <u>Accept ances</u>
Boston	7.4%	\$ 610,807.06	\$ 5,304,801.67
Philadelphia	9.3	767 _° 635.90	6,541,169.62
Cleveland	10.7	862,193.99	7,525,861,82
Richmond	5-3	437 , 4 69 , 9 2	3,727,765.33
Atlanta	4.1	338,420.13	2,883,741.45
Ghicego	13.8	1,139,072.62	9,706,251.69
St. Louis	4.6	379,690.87	3,235,417,33
Mirmespolis	3.3	272,386.93	2,221,060,19
Kanses City	4.0	330,165.98	2,813,406,09
Dellas	3.5	288,895.23	2,461,730,50
San Francisco	7.0	577,790.46	4.923.463.00
Totals	73.0%	\$6,025,529.09	\$51,344,664.75
New York	27.0%	\$2,220,713.61	\$19,000,20 5,36
GRAND TOTAL	100%	\$6,246,242.70	<u>\$70.314.870.73</u>

#2

FEDERAL RESERVE BANK

OF NEW YORK

333-6-1

January 15, 1926.

My dear Governor Crissinger:

The first two weeks of January are now past, and we can begin to get a view of the effect of the year-end financing, although we do not consider that the process has yet been quite completed.

From the high watermark, our earning assets have declined \$160,000,000, and they are still declining gradually, although the rate is so slow as to indicate that the process is about completed.

Of the late outgo of currency, which was about \$30,000,000, the entire amount has returned and in addition about \$60,000,000 less about \$5,000,000 of gold coin paid out, which has not yet come back. But the currency is still coming in rather rapidly.

The System figures show a reduction of about \$100,000,000 in the last week and an increase over last year at this same time of \$130,000,000 in earning assets. The increase of \$130,000,000 in earning assets does not quite offset the net outflow of gold from the country in the period covered.

In view of this, I should suppose that we can hardly expect the earning assets of the System as a whole this year to get much, if any, below \$1,000,000,000.

In fact, I would doubt if they would get below \$1,100,000,000 unless some change in conditions develop which cannot be foreseen. Liquidation in the stock market would naturally reduce our loan account considerably, or a reduction in the activity of building, but viewing the situation as a whole, the developments this January seem to be just about what we anticipated they would be, and at the meeting on Monday we will be able to determine what, if anything, should be done in the System's investment account in Government securities. I had not expected to raise that ques-

Moted AT BOARD

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FEDERAL RESERVE BANK OF NEW

Honorable D. R. Cisconger

1.15.26

tion, but simply consider the usual problem of percentages. If, however, you or your associates have views in regard to our program from now on, I hope that you will discuss them with the Committee quite fully, and I am glad that you are able to attend the meeting. It is to be held here on Monday to meet the convenience of the members of the Committee, which seemed only possible by having it on that day.

Very truly yours,

Bu, Arroag

Honorable D. R. Crissinger, Governor, Federal Reserve Board, Washington, D. C.

P.S. I am enclosing a memorandum giving some analysis of the situation.

Misc. 3, 1-50M-8-25

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

W. R. Burgess

	DATE	Janu	ary 15	, 1925	-
SUBJECT: Money	Market	Changea	Over 1	the	_
Year-end.					_

Second District

Currency and Coin:

To Governor Strong

During the six weeks before Christmas coin and currency to an amount of about 100 million dollars was put into circulation in this district. Almost exactly that amount of currency and coin has now been redeposited in the Federal Reserve Bank. The rate of return is about the same as last year.

Transfers to and from interior:

For the six weeks prior to January 1 New York lost about 60 million dollars through the gold settlement fund as funds were withdrawn out-of-town to take care of year-end requirements in other parts of the country. Since January 1 funds have flowed back to New York from other districts to an amount of about 60 million dollars.

Use of Federal Reserve credit:

In order to meet the demands for currency and the withdrawal of funds from this district, the earning assets of the Federal Reserve Bank of New York had increased rather steadily during December to nearly 400 million dollars on December 30. This increase is exclusive of 50 million of U. S. securities purchased in New York and distributed to other Reserve Banks. These purchases took the place of additional borrowing by banks or the market which would have otherwise been necessary. Hence this effect of the purchase was to lessen the year-end credit strain. Since December 30 total earning assets have been

Misc. 3, 1-50M-8-25

To___

FROM

FEDERAL RESERVE BANK

OFFICE CORRESPONDENCE

I ICE COMMESFORDENCE	DATE192
	SUBJECT:

- 2 -

reduced, as the result of the return flow of currency and transfers to 240 million dollars last night. This represents a total decrease from the December high point amounting to about 155 million dollars, as compared with a total gain to bank reserves through currency returns and transfers of about 160 million.

Change in street loan account:

The street loan account as reported by New York City banks ran up to a new high point for the year on December 31, about 40 million short Since that time there has been a reduction in the of 3 billion dollars. account of about 62 million dollars, but it still remains substantially above the figures for any period except the last few days of December. There has been an interesting change in the composition of the loan account. In the weeks prior to the end of the year loans placed for correspondents showed a reduction of over 100 million dollars, and loans placed by New York City banks for their own account showed an increase of about 300 Since the first of the year loans for correspondents million dollars. have come back to the old level and above by an increase of about 127 million dollars, and loans by city banks have decreased about 190 million dollars, or over half their previous increase. It may be noted that the changes in the ownership of the street loan account are much larger than would be accounted for from the transfer of funds between New York and Probably what has happened has been that heavy the rest of the country. dividend payments leaving New York have been returned for employment here,

Misc. 3. 1-50M-8-25

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE	DATE192
То	SUBJECT:
FROM	7

a transaction which would result in little net change in the gold settlement fund figures, but would result in a drawing down of deposits of New York City banks and an increase in the amount of out-of-town funds lent here.

Federal Reserve System

Currency and Coin:

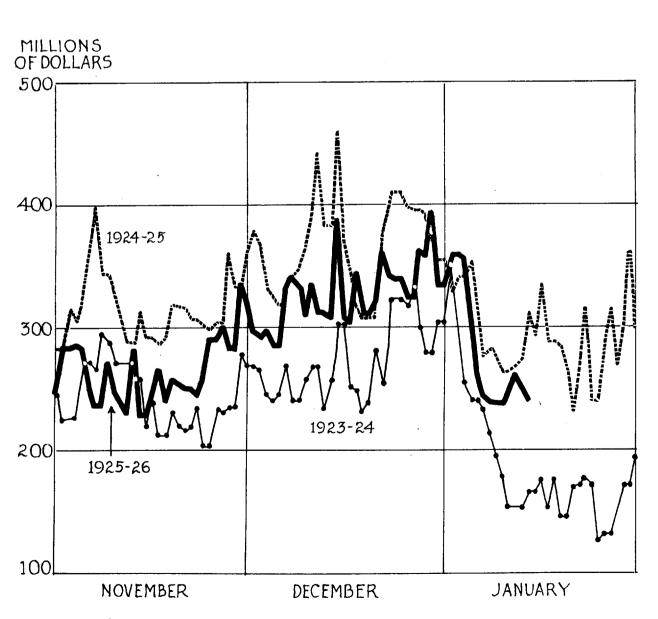
For the country as a whole it appears from changes in total reserves, holdings of non-reserve cash, and note circulation of all Reserve Banks, that the amount of coin and currency drawn into circulation in the six weeks ended December 23 was about 325 million dollars. In the three weeks after Christmas about 390 million was returned to the Reserve Banks. So that it appears that the holiday currency movement has been practically completed.

Use of Reserve Bank credit:

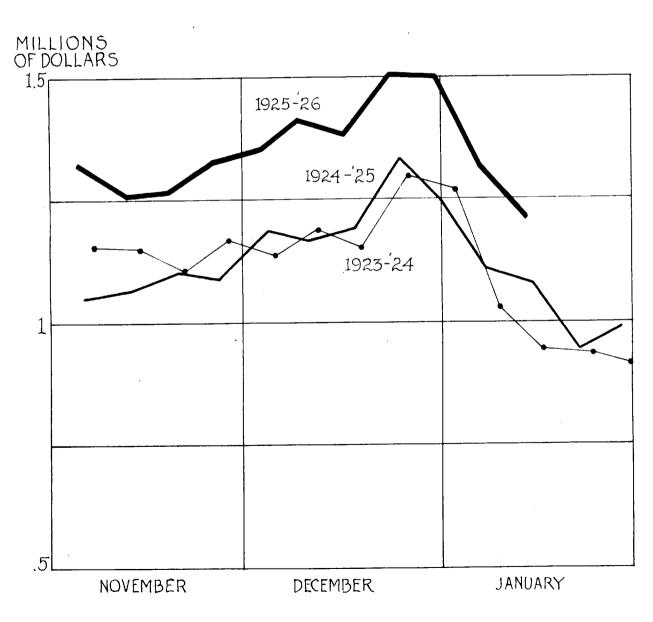
During the period of heavy currency withdrawals total earning assets of all Reserve Banks showed an increase of 242 million dollars, 200 millions of which was in discounts and the rest in bills and securities. Between December 23 and January 13, when currency retired from circulation amounted to nearly 400 millions, earning assets of Reserve Banks declined about 295 millions, of which 260 millions represented a reduction in discounts taking place after December 30.

Movement about completed:

From these figures and the attached diagram it appears that the first of the year readjustment is now approaching completion.



Total Louns and Investments, Federal Reserve Bank of New York.



Pital loans and investments, all Federal Reserve Banks